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The Business Quarterly

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UNIVERSITY OF WESTERN ONTARIO

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QUARTERLY

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The Growth of the Quarterly

With this current issue, *The Business Quarterly* is privileged to announce its membership in the Audit Bureau of Circulations. At the same time we can announce that our circulation for the fall issue is expected to reach 5,750.

The Business Quarterly has had phenomenal growth since the end of the war as is shown by the fact that its 1945 circulation was only 500 subscribers. This growth is evidence of the increasing size of Canada's managerial group. But the growth is also testimony that the editorial policy of the *Quarterly* is meeting the demands of Canadian businessmen.

Periodicals, like most of man's institutions, are the products of combined talents. Throughout the past years a succession of able editors has contributed to our present editorial goal, which is the "publication of material of high quality, significance, and interest in all aspects of business and economics, as related to the Canadian business scene."

Business administration is an art which draws ideas from many areas including engineering, the social sciences, and the natural sciences. The present issue of *The Business Quarterly*, like its predecessors, is devoted to the development of the art of administration. In this Fall *Quarterly* there are contributions from six authors whose backgrounds range from Economics to Physics, from Accounting to Advertising, and from Personnel to Management. Each of these specialists has ideas to contribute in the solving of today's complex business problems. Each of our subscribers can read and draw at will from the trained disciplines of these several authors. Through this process of cross-fertilization of ideas still another innovation in the administrative art may be formulated for testing in the practical business world.

If we look at only two articles in this current issue, we find first R. W. Jackson, a scientist in industry, stating that "Canada has grown up as an industrial colony, a sales-outlet, and branch-plant set-up, leaving all the technical knowledge, research, and development to the parent companies in the United Kingdom and the United States." Mr. Jackson strongly urges Canadians to pay more attention to technical creativity, to research and development and puts forward the case for a large portion of government support in industrial research.

Dr. Stephen Peitchinis also pleads for product research and development, this time from the viewpoint of an economist. In his examination of the structure of "Employment and Labour Costs in Canadian Manufacturing Industries," Dr. Peitchinis becries "The Canadian practice of duplicating product designs developed in the United States automatically excludes us from the vast and diversified United States market as well as from foreign markets equally accessible to the United States."

These extracts are only two of the many interrelated ideas in this issue. The whole represents the editors' current choice to fulfill the editorial objectives.

Each issue of the *Quarterly* brings a challenge to the editors in their quest of the editorial goal. The editors realize that the success of the *Quarterly*, like the success of all administrators, depends on the "workability" of the ideas which are enunciated and put to the test. In the case of the *Quarterly* the test of its effectiveness in meeting its editorial goal is surely indicated in its mounting subscription list.

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Our Readers Write

To The Editor:

It was refreshing to read your editorial in the Business Quarterly concerning drug prices in Canada.

Too often those of us in the industry can say little for fear of being accused of 'breast beating.' It is a sad fact that medication (other than perhaps some proprietaries) has never been a preferred purchase—in contrast to, for argument's sake, alcholic beverages. Thus the consumer never 'budgets for' but prefers to 'bargain for' life-saving drugs.

In Canada we have approximately 60 large pharmaceutical companies, plus innumerable "parasitical firms" competing for about 150 million sales dollars. Simple arithmetic will tell us how far around this figure will go. A recent survey of the Canadian pharmaceutical industry showed a net profit after taxes of 6.5% of sales.

In the last 20 years the drug share of the consumers' health-care dollar has fallen almost 10% despite the never increasing cost of research and development of new drugs. This is to say nothing of the strides pharmaceutical research has taken in the treatment, alleviation, and cure of man's ills. May I quote from a provincial pharmaceutical association pamphlet: "The Most Expensive drug in the world is the one that is not available when it is desparately needed."

Yours very truly,
Vic Siroishka,
Don Mills, Ontario.

To The Editor:

I agree with your editorial "Witch-Hunt, Go Home" up until the last observation, that it is up to the market place and not our legislators to determine whether drugs or any other prices are "too high."

Agreed there should be no witch-hunt and that we should get the facts. No matter how complex the pricing mechanism and the delicate institutional practices that have evolved in price-setting for drugs, however, surely there is a place for ethical judgment as well as economic determinism.

If the price mechanism does not reconcile with our values, or our sense of social responsibility, then there is the need to consider price in relation to values and what is possible to bring about reconciliation.

It is because of the appeal of individuals to their legislators that the question becomes one of ethics and social responsibility as well as the efficacy of the market place.

Continud on page 202

THE
MILDEST BEST-TASTING
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Chances are you'll never tie up alongside the Canada Steamship Lines' flagship T. R. McLagan at your Imperial Esso service station. But she's an Imperial customer all the same and an important one as far as you are concerned

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**DBS wholesale price index.*

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About Our Authors

John M. Appleton, is Vice President of the Quaker Oats Company of Canada Limited. Formerly President of the Greenmelk Company Limited of Wallaceburg, Ontario, Mr. Appleton moved to Peterborough when Greenmelk became a Division of The Quaker Oats Company. He graduated from the Ontario Agricultural College in 1935 and took his Master of Science Degree at the University of Wales, studying under Sir George Stapledon, the founder of the world's first Grassland Research Station. Mr. Appleton is a Past President of the Ontario Elevators' Association and is presently a member of the Agricultural and Resources Committee of the Ontario Chamber of Commerce and the Water Committee of the Otonabee Valley Conservation Association.

Ray W. Jackson is Director of the Semiconductor Laboratory at the Research Laboratories of RCA Victor in Montreal. He received his B.A.Sc. degree in Engineering Physics from the University of Toronto, and, after two years in the Royal Canadian Navy, he entered the Graduate School at McGill University, receiving a Ph.D. degree in Nuclear Physics in 1950. From 1951 to 1952 Dr. Jackson held a postdoctoral fellowship at Yale University, from the American Council of Learned Societies, for study in the philosophy of science. Dr. Jackson joined the Research Laboratories of RCA Victor in Montreal in 1956 as head of the Electronics section. He is listed in American Men of Science.

Stephen G. Peitchinis came to Canada from Greece in 1950. An Assistant Professor in the Department of Economics and Political Science at the University of Western Ontario, where he received his B.A. and M.A. degrees, Dr. Peitchinis teaches Labour Economics. In 1954 he was awarded the Mackenzie King Traveling Fellowship, which he used at the London School of Economics. He received his Ph.D. there in 1960. A previous contributor in *The*

Continued on next page

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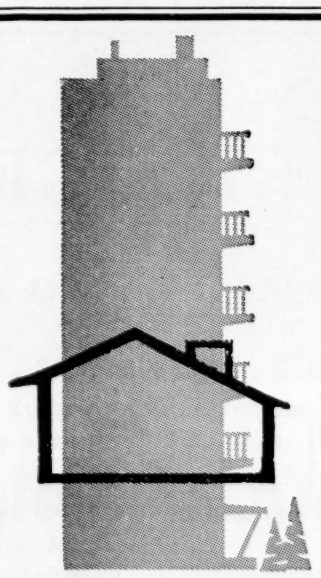

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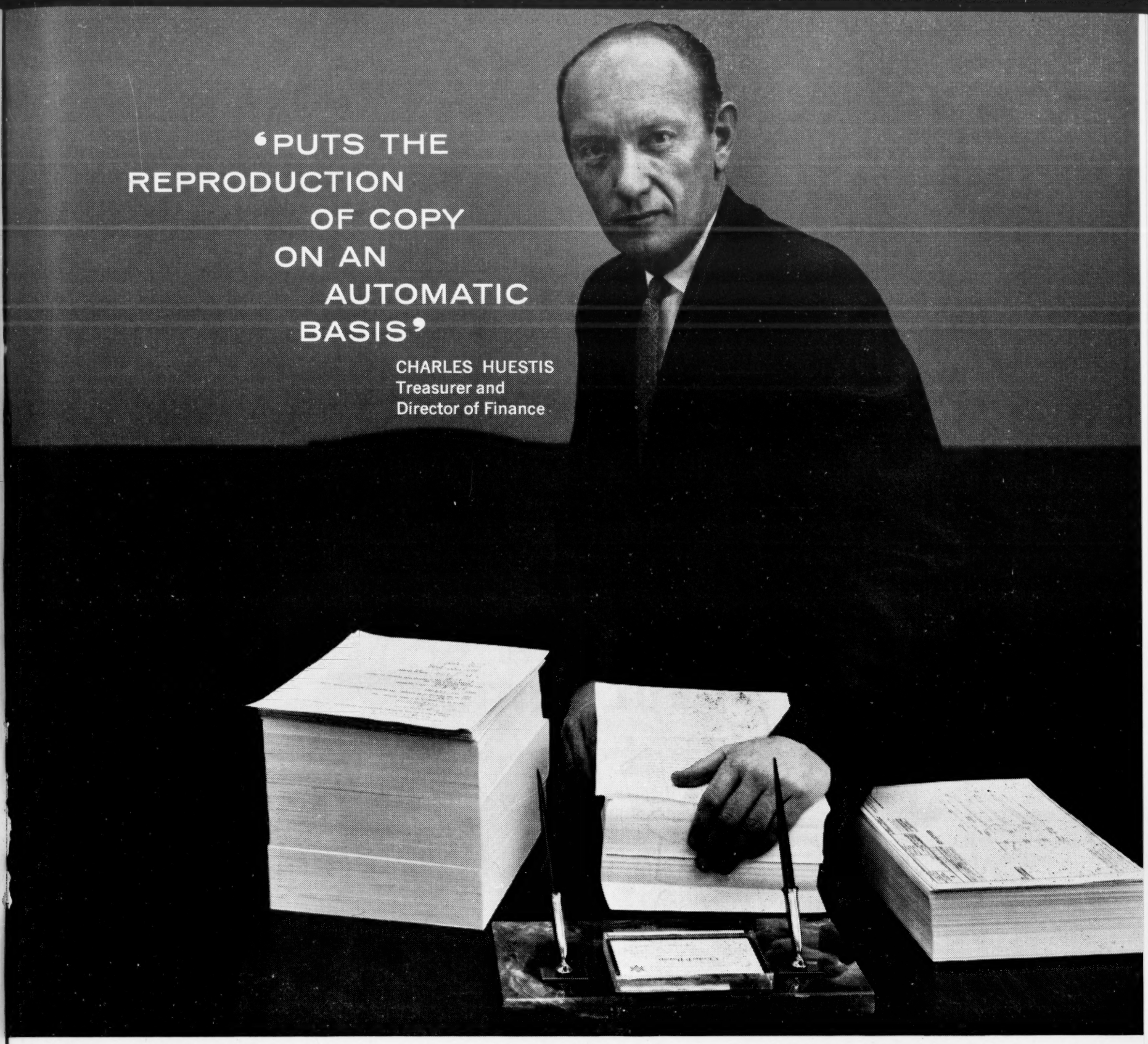
About Our Authors cont.

Business Quarterly, Dr. Peitchinis is the author of Railways, Railway Wages, and the Nation (Summer, 1961).

Emerson Foote, President of McCann-Erickson, Inc., entered the advertising agency business in San Francisco in 1931. He joined the Lord & Thomas Company in New York, predecessor to Foote, Cone & Belding, which was co-founded by Mr. Foote, in 1930. Mr. Foote is a director of the Advertising Federation of America, chairman of the National Education Committee of the AFA, national plans chairman of the AFA's 1961 advertising Week-Year committee, and vice-chairman of the 1961 Harvard-AFA seminar. In addition he is a member of the executive committee of the James Webb Young Fund for education in advertising, and he has served as vice president and director of the American Association of Advertising Agencies.

William J. Reddin, originally from London, England, is a graduate of the Harvard Business School. An Assistant Professor at the University of New Brunswick, he has taught there for the past four years. Professor Reddin is now engaged in writing a book on personal finance in Canada.

Neil Macdougall is General Manager of the Technical Service Council in Toronto, an industry sponsored placement service for engineers, scientists, and executives. An honours graduate in Chemical Enginering from the University of British Columbia, Mr. Macdougall received his Master's degree in Business Administration from the University of Toronto. Prior to joining the Council, he was Personnel Consultant for Brazilian Traction Light and Power Company Limited and Supervisor of Training (and management development) in the Marketing Department of the British American Oil Company Limited, Head Office. Mr. Macdougall has studied business operations in South America, North Africa, Europe, and the Far East, and his articles have appeared in *Personnel, The Financial Post,* and other publications in Great Britain and the United States.



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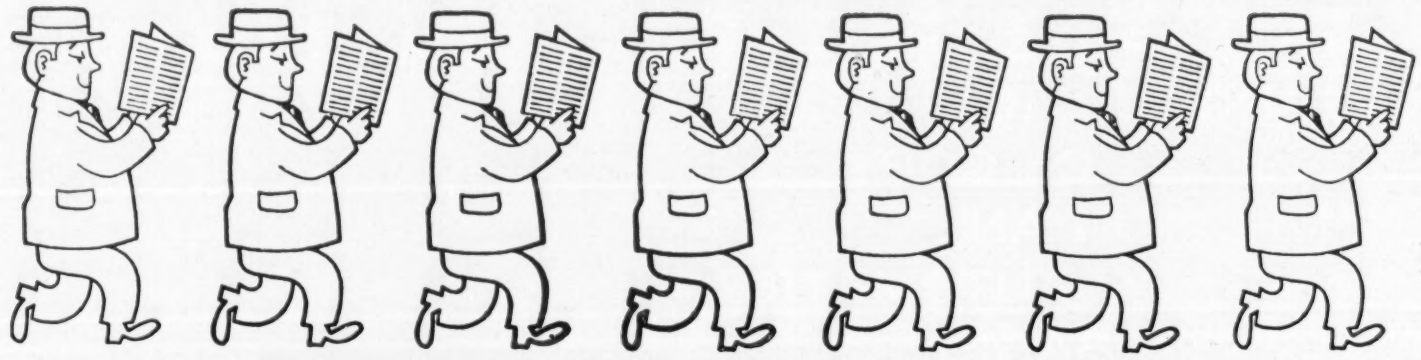
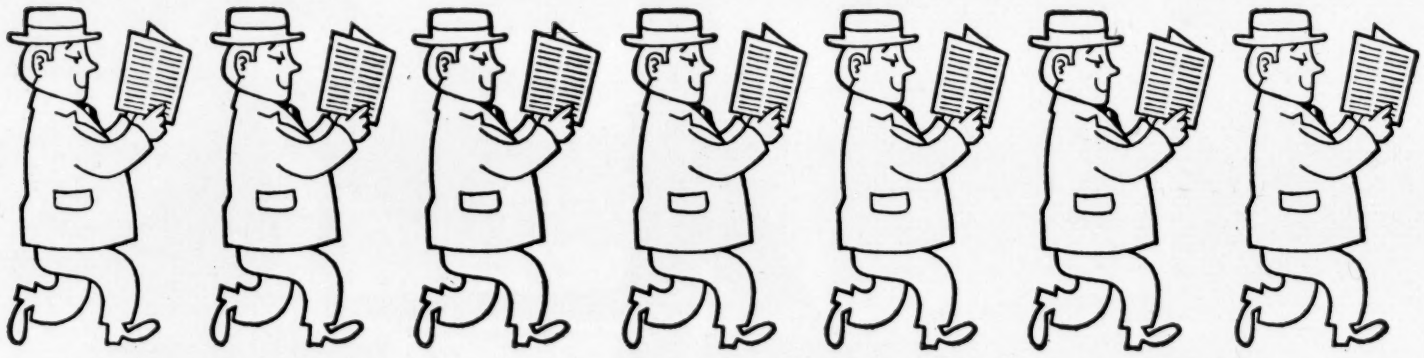


THEY'RE ALL OUT OF STEP

BUT SMITH...



That's according to Smith, of course. Actually it's Smith who's 'way out of step—all the others know the value of reading the B of M Business Review from cover to cover. This concise monthly spotlight on the business scene is invaluable in keeping you abreast of Canadian economic affairs.

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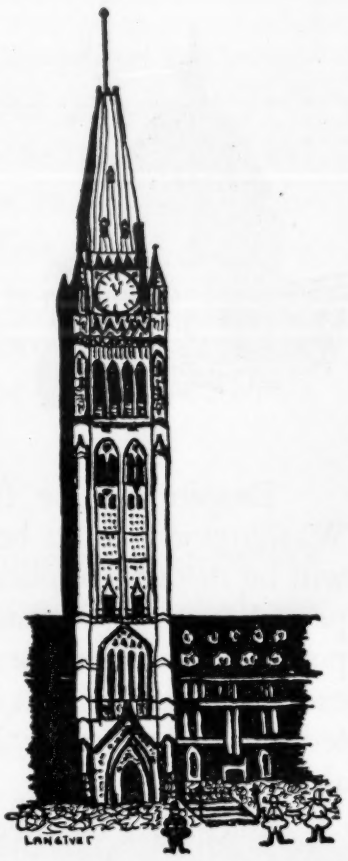
Ottawa Newsletter

PATRICK NICHOLSON



The late summer of 1961 has seen vivid examples of the dangerous and almost unbelievable naviety of politicians. This applies to the leaders of all three major democratic parties, the Conservatives, the Liberals, and the oddly-named "New Democratic Party."

Take the later first. In years past, the former national leader of the C.C.F., Mr. Major J. Coldwell, strongly endorsed Canada's membership in the North Atlantic Treaty Organization; further, he urged the full implementation of the neglected "Canadian Clause" of that treaty, the far-sighted Article Two, which called for full co-operation between the allies in the non-military fields, including trade. Mr. Coldwell's chief lieutenant in the field of international affairs, Alistair Stewart, former Winnipeg M.P., appealed repeatedly to our government to take a lead in advocating the creation of an Atlantic Community embracing a measure of pooled sovereignty and of internal free trade. The new leadership of the party, now seeking to absorb the C.C.F., has swung far away from this position; it frankly stands for Canada's withdrawal from NATO under certain circumstances, ignoring that such withdrawal, in flagrant disregard of our 21-year treaty obligation, would permanently damage Canada's repute in the council of nations.

The Liberal leader, Hon. Lester Pearson, hotly defended Article Two as much as eleven years ago. He agreed that critics might see it as visionary—which it was, in the sense of wisdom—but stressed that "it could lead to an economic, and even a political, commonwealth of the Western World, but, in this jet-propelled atomic age, nothing less will do." But through the ensuing seven years, whilst Mr. Pearson was our Foreign Secretary and in a position to lead in urging the implementation of his vision, he achieved no more than mumbling his excuses. Since being voted out of office, Mr. Pearson and his chief colleague in international relationships, Hon. Paul Martin, have repeatedly chided the new Conservative government for not taking the step which they themselves had failed to take.

In those far-away and best-forgotten lotus-eating years—speaking in the sense of vision—of the Liberal regime, a small group of Canadians staunchly advocated the far-sighted concept of Article Two. Among the better-known in that group were two Conservative M.P.s, John Diefenbaker and Gordon Churchill, and the president of the University of Toronto, the late Dr. Sidney Smith. The swing of the political pendulum in 1957 placed those three in the key positions of Prime Minister of Canada, Trade Minister and Foreign Secretary respectively. Yet, after Mr. Diefenbaker's damp squib promise to expand Anglo-Canadian trade, they swung swiftly into the same negative attitude as the former Liberal government. They rejected, without even studying the terms and exploring possible safeguards, the 1958 British offer of mutual free trade. As recently as this summer, Mr. Diefenbaker and four of his fellow Ministers so rebuffed an emissary from Britain, Rt. Hon. Duncan Sandys, who came to discuss the European Common Market, that the planned five day talks broke up in disarray, disagreement and bitterness after one and a half days.

Now a huge majority representing all parties in the British Parliament has endorsed the concept of pooled sovereignty and of regional free trade and free movement of labour.

And the idea is widely gathering strength, perhaps spurred by the Berlin crisis, that free-wheeling independent nationalism such as that advocated by our New Democratic Party—which might today be described as purblind unsophisticated selfishness—simply cannot compete against the administrative efficiency of a monolithic dictatorship regulating the economics, foreign policy, technological development, and—let us frankly admit it—the outer space military supremacy, governing our enemies in the Cold War.

As cool an assessor as the "Economist" of London, England, senses this wind of change and pronounces that "to suppose that the enlarged European Union may lead in turn to an Atlantic Union no longer smacks of fantasy."

The common denominator of Canadian Government's isolationist trade objectives over the past eleven years is patently neither Liberal Party policy nor Conservative Party policy. Nor is it the advice and lobbying of Canadian manufacturers or exporters, both of which groups are now experiencing a rethink as abrupt as that of Saul on the road to Damascus. The negative-orientated common denominator is, by elimination, the

Continued on page 194

Washington Newsletter

J. M. MINIFIE

Despite all the fulminations over Berlin, many Washington pundits believe that the top story of 1961 will be Britain's application for admission to the Europeon Economic Community. It has full Amercan support, and such influence as the White House may exercise with President de Gaulle will certainly be directed toward ensuring that terms of entry are reasonable.

Once that has been said, however, it should be noted that no American sympathy or support will be forthcoming for any half-hearted or qualified participation in the Common Market. The basic Treaty of Rome must be accepted, in the American view. In fact, Chester Bowles, the Under Secretary of State, said recently that an even greater contribution than widening the economic market might be offered by the United Kingdom in the political field. The great British political tradition, the genius for finding a consensus, the art of compromise in particulars without compromising principles, these are the major contributions which informed Americans hope will be brought to the European Community by the United Kingdom.

If that is the case, and assuming that Russian economic and political pressure is maintained, it is not impossible to conceive of the United States—bringing Canada in its train—giving hospitality to the concept of a great supranational power. The threat of expanding Communism under Josef Stalin insured passage of Marshall Plan legislation. Fidel Castro made the great Alliance for Progress possible.

Nikita Kruschev, if he keeps on at his present pace, will accomplish in a few years what Clarence Streit could not do in a generation to make an Atlantic Union acceptable to American opinion.

Thus Senator Fulbright, the Chairman of the Senate Foreign Relations Committee, said that only a "concert of free nations transcending the limits of national frontiers and national perspectives" could successfully combat the spread of Communism. Marxist aggressiveness, in short, supplies the impetus which may enable the West to surmount the obstacles to greater cohesion.

Senator Fulbright anticipated the vigorous implementation of the Organization for Economic Cooperation and Development and the expansion of existing organs of European unification, with Great Britain, Canada and the United States moving toward full participation. And in a less formal intervention on the floor of the Senate he said bluntly: If Britain goes in, we must go in.

One of the odd facets of this orientation is that the original proponents of closer union now look with a hostile eye on British participation in the European Economy Community. Mr. Streit fears the *loss* by submersion under overwhelming numbers of that very political genius which others believe could be the British leaven in the continental tradition of autocratic power.

These visions of future political cohesion are subordinated to the immediate examination of the prospect for economic adherence of Britain to the continental system. Immediately at issue is the reaction of Congress to the prospect of a massive tariff bloc. The diverse currents of sympathy for the expanding Common Market and growing protectionism at home will raise some choppy seas in Congress next session, just at the time when the Reciprocal Trade Act nears its end. The White House is already considering what should be done about extending or replacing it. The President brought in the Philadelphia banker, Howard C. Petersen, as special assistant to develop a new international trade program. This will have to take account of the changes which the European Common Market will bring. The Congressional battle over renewal or replacement of R. T. A. will bring on a struggle which will make the fight over foreign aid look like a preliminary bout.

There could hardly have been a better choice than Mr. Petersen. He is, to start with, a Republican. Most of the opposition to more liberal trade policies comes from Republicans, althought the virus has spread to the Democratic South in a last two decades.

Mr. Petersen, Republican, was an assistant to Henry L. Stimson, Republican, whom FDR named Secretary of War. The war over, Mr. Petersen toured the world deciding what to do with the billions of

Continued on page 194

A rapidly growing number of Canadian businessmen, like yourself, are turning to the pages of THE BUSINESS QUARTERLY to keep abreast of the most effective steps being taken to solve the broad problems of management in Canada. This realization by Canadian executives that there is a professional management journal edited specifically for them is reflected in the sharp increase in the paid circulation of THE BUSINESS QUARTERLY.

In providing a publication that meets the greatest needs of our many readers, it is important that we measure our circulation with the greatest possible care — against the most demanding standards — the Audit Bureau of Circulations. The ABC is a non-profit association of publishers, advertisers, and advertising agencies formed to certify the paid circulations of accepted member magazines and newspapers. Its function helps the advertiser, the publisher, and you.

There are many things about you that both our editors and advertisers want to know. What is your particular job function? What sort of problems are you concerned with? Twice a year, auditors from the ABC dig into our subscription records to check facts and figures about you and our more than 4000 other subscribers, to check the validity of our circulation claims.

Also, of great importance to you, these audits and reports on our rapidly increasing circulation reflect the ability of our editors to meet the changing interests of Canadian executives, to keep THE QUARTERLY worth paying for and worth reading.

The ABC helps our editors accomplish this goal. That's why THE BUSINESS QUARTERLY is proud to add the ABC emblem to its masthead signifying membership in the Audit Bureau of Circulations.

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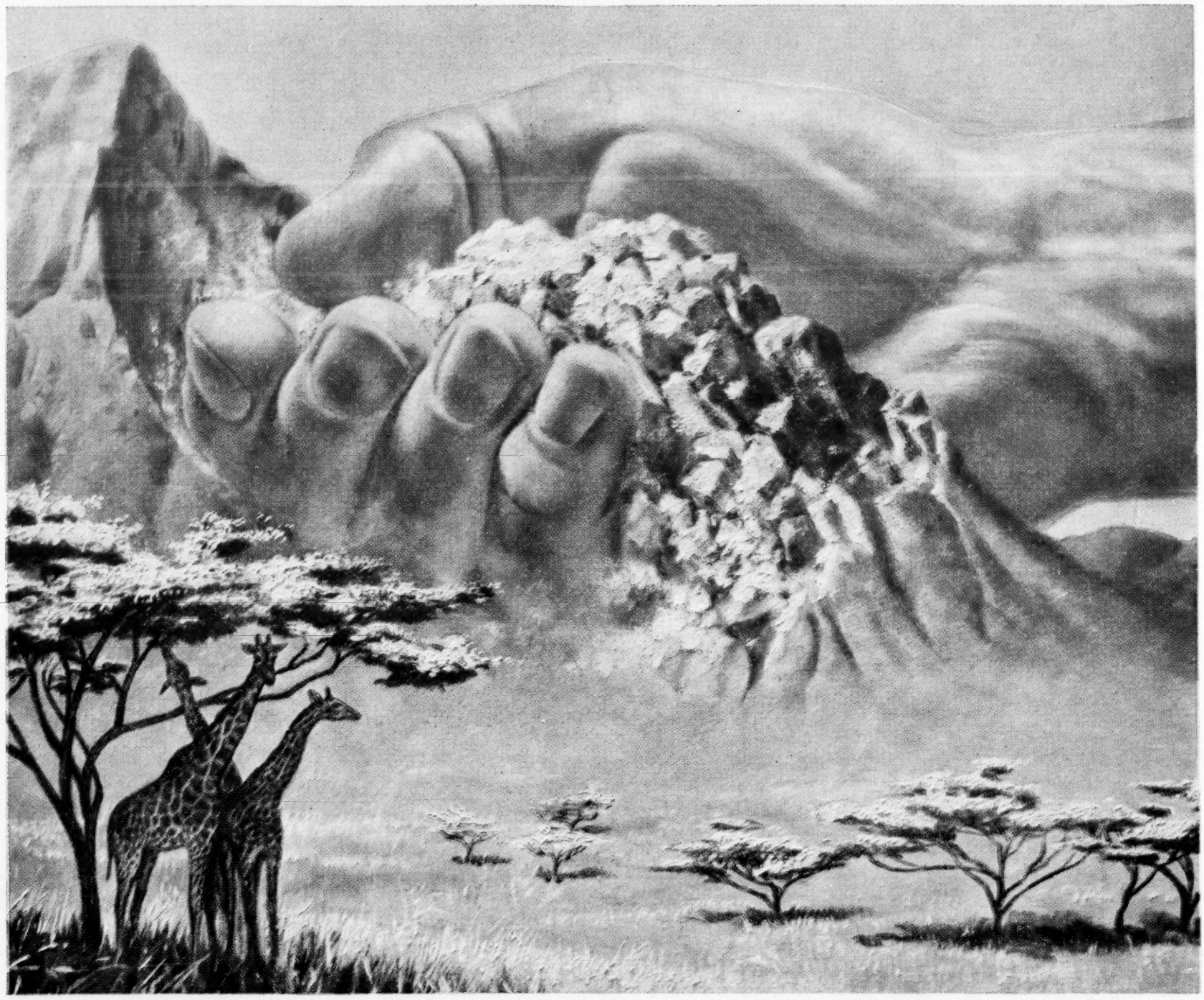
THE Business Quarterly



Bringing the Mountain to Mohammed

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Soil, Water and Man

We are too preoccupied with short-term economic and social betterment, charges the author. Canada is not basically an agricultural country, he says, and the abuse of our resources is gradually eating away at the vitals of our national economy.

J. M. Appleton

At this stage in our evolutionary development most people of the Western world are concerned with the problems of their social betterment. We seem to have evolved through the phase when the problems of existence alone dictate most of the activities of man and his governments. Suddenly, we have become affluent and now concern ourselves with material things above and beyond the basic problems of food, clothing, and shelter. Undoubtedly, much of this affluence is the direct result of the sudden release of the tremendous natural resources of the newly discovered Americas to an older European culture ripe for further fields to plunder.

This explosion in production of industrial and agricultural goods has proceeded with such rapidity, and has been so successful, that few individuals have as yet been able to significantly arrest the mass exploitation of natural resources as man drives for more and more of this world's goods.

In Eastern Canada many fertile acres are neglected and unprofitable as governments continue to subsidize a Western grain economy based upon an unstable system of monoculture. The great natural fertility of the prairie grasslands has still a most important role to play in the future of the Canadian agricultural economy, but not if we continue to ignore the lessons of history and disregard the basic teachings of modern science. We must adapt or face the consequences of a substantial reduction in production in succeeding generations. We must recognize that the democratic process sometimes moves so slowly that it presents substantial obstacles to its own progress. Even at this time the obvious and frequently successful competition offered by the communist block, which threatens the very existence of the democratic process, fails to arouse within us that sense of urgency and desire to change which must be the prelude to any great progressive adjustment. We are too preoccupied with short-term economic and social betterments to realize the immensity of the biological problem of survival which must eventually be faced. Perhaps it is beyond the comprehension of the average mortal. If so, it places great responsibility on those who have been fortunately exposed to the realities of this situation. The purpose of this article is to present to those chiefly concerned with the daily problems of business the necessity of recognizing the parasitic nature of much of what we have considered good business practice in the past.

THE PARASITIC NATURE OF MAN

Man is basically a parasitic animal living on the by-products of the biological activity that exists in a thin organic mineral mixture that covers a small part of the earth's land mass. He is, at the same time, a by-product of this biological activity and a part of the process. Until very recent times he exercised little or no control over any of the environmental conditions in which he existed, evolving slowly, as other animals, changing, always changing. Over hundreds of thousands of years he has been at the complete mercy of the great weight of environmental factors. This was the force that influenced the direction of his survival. He has been as a minute parasite exercising little effect on his obliging host.

Somewhere along the evolutionary road, man became equipped with a built-in *adaptostat* which not only speeded up his mobility and adaptability, but distinguished him from other animals, even while he still responded to many instinctive motivating forces. He has now developed such an understanding of the nature of things that he has within his grasp the power to both develop and destroy the environment in which he lives. In a short space of a few thousand years he has almost become the master of his destiny. Perhaps, during the next few hundred years he will

have the opportunity to determine whether he will continue to progressively evolve, or, like so many other animal forms, become once again a minute parasite completely under the control of external environmental factors.

To achieve his present, rather unique, status in the animal world, man as a species has developed a remarkable degree of social fluidity. From an early beginning where he apparently hunted alone or in small groups, he has created many types and sizes of social orders as environmental conditions changed. Unlike most other forms of animal, or even insect life, he has shown a constant and increasing desire to protect the aggregate, quite often at the expense of the individual.

As man became more and more conscious of his unique capabilities, he more readily accepted the mass effect of the species in moulding the behaviour of the individual. Being heterozygous genetically, individual variations have always been great, there being wide gaps in both physical and mental capacities. However, the influence of the individual in moulding and directing mass activities and attitudes has been equally as influential as the effect of the mass on the individual. Moreover, as means of communication have improved, the influence of the *strong* individual has substantially increased and has reached the point where one of the greatest current fears is that some such *strong* individual could in a period of mental relapse press the wrong button.

In spite of the insecurity of the moment, it is well to remember that man, unlike other animal species, has developed a social order in which the individual works for others as he works for himself. This is a kind of symbiotic relationship, which could almost be described in biological terms as an acquired characteristic, brought about by man's successful attempt at controlling the social order. This type of *reasoned* relationship would also have to be considered as a part of the biological process of evolution and could reasonably be assumed to result from a mixture of the influence of environment and genetics. The capacity to remember is genetic and is transmitted to each generation. The realization of such a capacity can be attributed to the influence of environment. In this case the greatest influence is the recorded and spoken word, through which cultural acquisitions are transmitted to succeeding generations as a complementary function to the human brain.

Man has thus built into the framework of his developing culture the means for continually speeding up the process of adaptability. His social order is not static like that of the honey bee, or other insect forms. It has constantly changed to meet different social and economic changes. The rate of development, of course, has not proceeded at the same rate in all regions. Whether or not the different rates of development have arisen from different genetic derivations, or different ecological or economic circumstances, is still being questioned and argued by geographers, anthropologists, sociologists, and others.

The fact remains, however, that man is still basically a parasitic animal and exhibits many of the instincts and reactions of animals in his emotional responses and the behaviour of a parasite as he destroys the host on which he lives. His future existence on this planet will depend largely on his ability to control and direct both his emotional responses and his parasitic behaviour. There are now unmistakable signs that man is becoming aware of his parasitic behaviour, and, as the mass of mankind moves forward with greater and greater demands on the natural resources, many farseeing individuals and individual groups, realizing the problems facing future generations, are working slowly to unravel the problems of a continuing food supply. Perhaps this concern for the future could be considered as an instinctive reaction, for it could be classified with the same instincts that other animals exhibit, as they prepare for the dormant period.

The basic agronomic, economic, and social problems are now recognized and studied. The value of such efforts is difficult to appraise, for they concern broad problems going beyond any single generation. The effect of what we do today will only be measurable tomorrow. Of one thing we can be sure —we are but a part of a slowly evolving biological process moving inexorably along a course whose destiny we become increasingly able to control.

OUR WATER AND SOIL RESOURCES—A BASIC PROBLEM

Basic among these problems of control is the use of soil resources for the production of food and fibre. Until recently North American agriculture has been chiefly concerned with developing the technique for exploiting soil resources. It is only in some of the older civilizations of Europe and parts of Asia that one finds agricultural practices deeply interwoven in social customs, where over many years of trial and error, the laws of conservation of soil production resources take on almost a religious connotation. The rotation of crops, the return of animal and plant waste, the use of leguminous crops, all these are fundamental to many farm systems which have developed without the assistance of scientific research and which have maintained or increased soil productivity over several centuries.

A fundamental feature of all these stable farming systems has been the supply of water. Water constitutes about 90% by weight of most growing annual crops at some stage in their development. Water is unquestionably the most important nutrient required by plant and animal life. It is interesting to note that over the years the great masses of population throughout the world tended to cluster about areas where water resources were adequate. In the tropical and semi-tropical countries water and rice are synonymous. In the temperate regions populations have developed significantly only in those areas where the annual rainfall is about 30 inches, or more.

Until modern times water was not only the basic ingredient in the production of food, it also supplied the only means of communication and transportation. However, with the development of mechanical means of transportation, particularly the steamboat and the steam engine, new areas, including whole continents, of potential food supplies became available. No longer was it necessary for western civilization to rely on the carefully nurtured acres of Europe. The vast soil resources of the new worlds were there for the taking. Within the short space of the last 200 years the new frontiers were opened and food for most European countries became cheap and abundant. Thus was created a whole new set of environmental circumstances. Resources which heretofore had been scarce suddenly became abundant. Such a significant change in basic environmental influences released a whole new set of talents hitherto restrained by the limited soil resources of Europe. Undoubtedly, the tremendous development of industrial Europe and America can be attributed to this changed food and material resource supply.

The pent-up energies of a disciplined Europe were unleashed to attack these new-found riches. A great social and economic revolution followed, and the world became infused with all the riches and benefits which this new technical and scientific world produced. Unfortunately, however, in his haste to exploit these many new resources, man quickly forgot many of the teachings of his forefathers and developed an attitude towards soil and water which was anything but respectful. This attitude has become so commonplace as to be considered by many as the normal condition. The emphasis now is almost always on current problems for current markets. Production is the driving force—regardless of the long term consequences. Whether it be water, soil, or forest, the result has been the same—waste. This is now a normal situation and is perpetuated as an accepted part of our "way of life." Rivers are polluted, forests are plundered and burned, and the precious top soil made to yield its last ounce before it is either blown or washed away.

This is the current scene as a part of the evolutionary process of man's parasitic behaviour. But *reasoned* reactions have also become evident in the development of such as an international joint commission on water pollution, rigid government supervision of forest cutting and forest protection, and others.

THE FARMER AND THE LAND

It is in agriculture that we have made the greatest strides in exploiting the productive capacity, yet while we undoubtedly are aware of the problem of soil and water conservation for agricultural purposes, so far little effective corrective direction has been given or accepted. Here the individual remains supreme. The farmer, and what the farmer stands for in terms of basic human values, has been developed within our culture over many centuries. Many of the old world social concepts are still very much with us. Ownership of land has been the unfulfilled desire of many generations of Europeans. It is associated with prestige and security. Is it any wonder that land is held with great tenacity, even when the economic situation clearly indicates unsatisfactory economic returns?

The immobility and changelessness of agriculture is one of the great problems of modern times. We are faced with serious resistance to the acceptance of some very fundamental agronomic and economic changes. The continuous insistence that a profitable grain economy is possible in the semi-arid sections of western Canada is a case in point. The resistance to any change in this direction is of primary national concern.

As pointed out above, where large numbers of people are involved, no permanent economy has ever existed unless associated with some reliable water source. Even with the great allowances made in soil management, no permanent production is possible without adequate water.

THE FALLOW SYSTEM

But man is not to be denied and he has developed all kinds of special devices to overcome this problem. Among these is the fallow system so hallowed by all dry land farmers. This practice of leaving half the land bare as we attempt to collect those extra inches of rain for the subsequent crop is widespread. Unfortunately, it is a wasteful and transitory system and of questionable efficiency. It is estimated

that the fallow system has already run through half its life cycle. Another hundred years under fallow, a short time in a nation's life, and most of the soil in those areas of western Canada where rainfall is less than 15 inches annually will be so unproductive as to defy even the re-establishment of grass—the only crop suitable for any type of permanent production under such climatic conditions.

In the meantime those areas of western and eastern Canada where higher rainfall than 15 inches is normal are not being given the opportunity to develope as they should. This applies particularly to those areas of western Canada where rainfall is just a few inches above 15, yet sufficient to make the use of fertilizer and crop rotation a sound practice, both economically and agronomically.

THE WELL-LEARNED ART OF EXPLOITATION

Canadian business owes much of its greatness to the immense contribution made by Canadian agriculture. Yet agriculture has generally been regarded as a second class occupation, and its members as second class citizens. Historically the farmer and the land have been exploited both economically and politically for the benefit of other segments of society. The responsibility for the direction of such parasitic exploitation can be placed upon the shoulders of the well meaning but ill-informed industrial and political leaders. These men, as part of the rapidly developing Canadian nation, have helped create this exploitive concept, oblivious to the influence of the *culture* of our European forefathers where agriculture was argonomically adjusted if not socially acceptable.

Industry has relied heavily on agricultural raw materials to sustain its forward progress. Many politicians have relied heavily on agricultural voters to sustain their forward progress. Both have had mutual interests in developing the exploitive concept, only possible in a country of abundant natural resources. Is it any wonder, therefore, that caution and conservation have been both unpopular and unprofitable?

Through the formative years Canadian agricultural policy has developed as a lusty youth. With reckless optimism we have attacked our natural soil resources, swinging through each phase with undisciplined energy, unbridled by any thoughts of scarcity or waste. This is the environment we have created for ourselves. But now the *fling* is over. We have passed the stage of puberty, and we now must plan on giving birth to new and better concepts more in keeping with approaching national maturity, when we must settle down and live within the limits of our agricultural means. It is obviously unjust to expect the agricultural industry itself to suddenly reverse its direction and discontinue the well-learned art of exploitation. The farmer, too, has learned the rules of the game and currently possesses sufficient political power to frustrate even the most carefully calculated plans to preserve the nation's resources.

BUT CHANGE WE MUST

The future development of Canadian agriculture can only be successfully directed if industrial, business, and agricultural leaders recognize the actual role of a sound profitable agriculture based upon the wise use of soil and water resources. This concept must be developed regardless of some individual rights and privileges. The acceptance of this attitude will only develop slowly. The first phase will be the most difficult, for few as yet accept the idea that resources are limited, nor appreciate the inexorable way in which abuse of such limited resources is gradually eating away at the vitals of our national economy. Some direct and indirect agriculture subsidies are a good example of how the misinformed tend to perpetuate degeneration.

The greatest resistance to any significant change will come from organized agriculture. This is to be expected. Minority groups always jealously guard their special rights and privileges. This applies particularly when such rights and privileges have a long historical background, some of them so deeply rooted that they have special moral as well as political significance.

But change we must, for Canada, because of its geographical location and peculiar climatic conditions, is not basically an agricultural country. The climatic conditions require that we nurse with great care the limited production potential. The present surplus of some agricultural commodities is but a passing phase, awkward no doubt, but a reflection of our ability to exploit rather than to conserve resources and to relate production to social and political requirements, not to soil or manpower conservation. Whether by peaceful means or otherwise, the world's food production capacity must eventually be harnessed to serve the ever-expanding demands of the world population. It is almost a sin against man himself that we now abuse the privilege of living from our Canadian soil as we destroy it. The future of our dominating industrial economy requires that this situation be changed. No economy can flourish without a reliable source of food.

The cost of the many and increasing indirect and direct subsidies to maintain an unbalanced agriculture is now largely borne by industry and the consumer.

This cost will mount with each succeeding generation unless we quickly re-group our forces and commence to live in harmony with nature. The production potential of Canadian agriculture is probably about double its present level, but will be realized only if we begin now to devise an agriculture in which the requirements of the nation begin to take precedence over the individual. Such drastic breaks with traditional concepts take many years to develop. A start must be made. It will only come from men of goodwill and understanding. It will be developed from the top. It will not come as a great ground swell from the farmer. It will not come from politicians whose main concern is to get elected. It will only come when a significant number of intelligent Canadians accept the realism of our agricultural potential.

A CHALLENGE

This is a challenge to our concepts of a free society. We have proven, without doubt, the superiority of this system in developing adequate supplies of raw material from agricultural production. It is in this respect that we appear to have a marked advantage over organized dictatorship. This advantage must be maintained. It is perhaps one of our most valuable economic as well as social advantages over the Soviet system.

It is questionable, however, if this advantage can be maintained if we continue to ignore basic agronomic and economic truths, as we continue to exploit what we have, by the grace of God, fallen heir to.

Informed opinion is well aware of the impending problem. Recently in Winnipeg a group of such men, representing all phases of agriculture both political and industrial, met to consider this very problem. The unanimity of this meeting in appraising the overall aspects was unique. It was clearly stated that the great current need was research into all aspects of the problems of agriculture as an integral part of the national economy. The emphasis was on social research for the future, as opposed to production research, the dominant force behind agricultural developments of the exploitive years. The great problem was obviously the financial support and direction of any such research. It is unfortunate that as yet we as Canadians have not exercised sufficient influence on political thinking to make such an idea acceptable to most of the ministers of agriculture and their deputies.

The idea of using federal and provincial funds to set up an independent research body to study our most basic national problem was, for the time, rejected at a meeting of the provincial agricultural ministers and their deputies. This is the real measure of our weakness. Political power arising from the farm vote still dominates the thinking of the professional agricultural politicians. Huge sums of money can be easily found to support agricultural commodity prices or for special relief measures, whether they be for the butter industry or the railroads. But where funds are requested to develop an independent research organization, support is not readily available. This is the state of our progressive attack on a fundamental national problem. It is not encouraging. Perhaps we are still too affluent to appreciate that we have a basic problem in the continued exploitation of men and resources. Inevitably, however, we must pay the bill, and the sooner Canadian political, financial, and industrial leaders appreciate the basic requirements of a sound and prosperous agricultural industry based on economic and agronomic truths, the sooner will Canada live in harmony with nature and begin to harness and develop her great resources for the benefit of this and future generations.

SPOTLIGHT ON CANADA

The business outlook in Canada is improving and an upturn can be considered as fully confirmed. While improvement thus far has been comparatively modest, particularly in comparison with the situation in the United States, it must be remembered that the 1960 recession in Canada was milder than that in the United States and therefore the latter country has further to travel on the road to recovery. The half-yearly levels of activity in idustrial production, capital expenditure, the retail trade and employment all showed significant upward trends. However, the most encouraging aspect has been the increasing strength in the country's foreign trade position.

The objectives of the June Federal Budget are being attained to a large degree. The establishment of a lower exchange rate for the Canadian dollar was accomplished with very little support from the Exchange Fund and has been beneficial both in increasing exports and discouraging imports. At the same time a distinctly easier monetary policy has tended to keep interest rates down despite a considerable expansion in bank loans, and the gap between Canadian and United States rates has been reduced significantly, due partly to a simultaneous rise in the latter. The central government has been able to borrow twice in the short term market without any difficulty, indicating the development of a more orderly money market.

The pace of economic advance in the United States is as usual the dominating influence on Canadian events. Forecasts from below the border are becoming increasingly bullish on the receipts of optimistic reports from both government and private industry. A new element which arises out of the quickened pace is the appearance of inventory accumulations after an extended period of inventory liquidation. In general, indications seem to point to a broad upswing in Canada, but nothing that assumes the proportions of a boom is expected.

—*Mercantile Bank of Canada,* Mid-Sept. 1961

The Scientist in Industry

Dr. Jackson considers the scale of industrial research in Canada and suggests that our industrial-technological thinking is decades behind that of our international competitors.

R. W. Jackson

Five years ago this July I joined the RCA Victor Research Laboratories in Montreal. The research group had been started only a few months earlier and at that time consisted of 6 physicists, two assistants, a typist, and some brand new laboratory space. Today the group numbers between 50 and 60 people. Of these about 30 are graduate physicists, 15 of them with the Ph.D. degree. They are all engaged in relatively basic physics and electronics research,and evidence of their activities can be seen in the scientific journals. Now this, I think you will recognize, is something of a phenomenon. It may be the first time that a physics research group has attained anything like this size, quality, and stability in Canadian industry. Since it is perhaps the first time, you may be interested if I review how it came about and what, from our experience, are the necessary conditions for similar groups to grow and prosper in the arid and stony soil of Canadian industry.

The Research Laboratories were conceived in 1955 in a period of particular prosperity for the Canadian electronics industry. TV sales were high, defence business was good, competition from Japan had not yet appeared, and the Company looked forward to expanding horizons. To move into that bright future and make the most of it obviously called for new ideas and expansion by the Company in new directions. Dr. Rennie Whitehead was persuaded to leave McGill to set up a scientific research group for long range research as a sound technical base for the new technologies and a source from which new ideas would flow into the Company. Thus we have the requisites for the *initiation* of a research group by an industry: prosperous times, a sympathetic, optimistic and forward-looking management, and a suitable scientist about whom a group can form.

THE SCIENTIST AND THE BUSINESSMAN

The next year the *bottom* fell out of the TV industry. This very point illustrates one of the facts of life concerning research in industry. When the call goes out to retrench, to economize and cut losses, the first operations that tend to be cut are the long-term operations with intangible returns, like research. There is nothing vindictive about this, it just happens. It is, after all, an expression of the traditional difference in temperament and outlook between businessmen and scientists. The businessman is a specialist in making money, the scientist is not. The businessman (or the career executive) is a man of action, and men of action characteristically tend to the short-term view, as C. P. Snow has remarked. Perhaps once upon a time the businessman was a gambler, but this is becoming less and less the case as businesses expand into corporations, with boards of directors and shareholders. Today businessmen seek to justify rationally and on economic grounds every decision by recourse to the advice of "operations analysts," "market research," and so on. This is the psychological effect these boards-sitting-in-judgment must inevitably have on the use of such mysterious faculties as intuition and gambler's instinct. You might also say that businessmen lack imagination, and in this you might be right in the following way. Imagination, in this context, as distinguished from day-dreaming, is a rational extrapolation into the future from present premises. If a businessman in a technical age is poorly acquainted with the technical premises, then his imagination will not be worth much—it will have nothing to go on. (In such a case it would perhaps be as well for the businessman to stay with the short term view.)

These comments on businessmen from the viewpoint of the scientist are important, because these differences in temperament and outlook seem to be almost universally characteristic and are something with which the physicist in industry has to learn how to work. It is better to get accustomed to these characteristics than to pretend they do not exist.

There is a surprise ending to all of this. While businessmen may sometimes lack imagination in mat-

ters of current technical advance, they do have something to contribute, and in matters of finance they often show a perfectly valid imagination. In our particular company it has turned out that they were right. They did decide, as we might expect, that the company had to reduce expenditures on research. To make this possible without reducing strength, the research group turned to outside contracts for support. Now, if this slump had been only a short transient of a year or two, the businessman would have been open to all the recriminations which a scientist (who lives in the long term) is often inclined to level at them. But in fact it has turned out out that the Canadian electronics industry as a whole has been in rather serious decline ever since that time. Thus if we accept present conditions as closer to what we can expect from now on—and from the look of international competition and our country's economic position this is likely—then the times in which the Research Laboratories began were halcyon times. At the present time, however, the continued existence of a research group in industry is conditional upon government support.

GOVERNMENT SUPPORT

It may then be said that a condition for the existence of a research group in Canadian industry is a large proportion of government contract support. In fact this should not be a surprise. If we look at experiences in other countries we realize that, our cherished beliefs in free enterprise notwithstanding, only a few large companies with particularly stable incomes can in these times maintain a large research effort out of their own funds. (Paradoxically, by the way, they are just the ones who feel less need for research.) Even in the United States the figures for 1959 show that the government, through tax concessions and through direct contracts, paid 70% of the cost of research and development in the electronics industry. The figure for the aircraft industry was estimated by the National Science Foundation to be 86%. This tendency toward government support has been increasing year by year. We can hardly expect the proportions to be smaller in Canada, where industries suffer from the handicaps of a large dominating neighbour and smaller markets. This is a fact which must be faced up to by industries, by research groups, *and by Government.*

As it has worked out, the soliciting of outside contracts has been eminently successful and has made possible the expansion of our Laboratories to their present size. (The gross volume of research contracts now approaches $1,000,000 per year.) There are definite advantages to attaining such a size of research operation: sufficient interaction between scientists occurs to benefit productivity,[1] staff is more flexible because range of problems is wider, volume smooths out contract fluctuations, and more efficient use is made of supporting facilities such as library, machine shop, etc. The agreements between the U.S. and Canada are such that Canadian firms can compete freely with American firms for research contracts, so that the contract support of the RCA Victor Laboratories comes almost equally from Canadian and U.S. sources. A first reaction to such a situation might be that this contract support means high pressures and wild fluctuations, but it is not so, provided apt choices are made of the contractors and types of projects. Most agencies contracting for scientific research are now quite cognisant of the need for long term support and appreciate the nature of the results to be expected. In fact contract support has the advantage of making the research operation much less dependent on business fluctuations, and comes from sources which are in a better position to take the long term view.

LOOKING BACK

Today, five years from the beginning, I think our Company appreciates more than ever the benefits which a research group brings to it, and as a result Company support is more available. However, looking back, it would still be very difficult to demonstrate in tangible terms that the company would have made money on a continuing investment on the original scale. One or two new products have appeared due to the Research Laboratories, but any direct financial returns to date are a long way from paying the cost of the initial research. In fact I believe that a company must look to other more subtle benefits as well as the new products or new inventions, as justifications for the support of research.

THE BROAD PURPOSE OF INDUSTRIAL RESEARCH

This brings me to another condition for the success of a research group in industry: the company and the research group must understand what they are there for and what to expect from each other.

We all know that there is a continuous spectrum (in some coordinate or other) from the most fundamental scientific research through applied research, development, engineering, product design, and production. Now, many people tend to think of industrial research as being concerned entirely with the development of new products, "thinking up inventions"; the picture they have in their minds is very often Edison at work developing the light bulb. But

[1]The situation is remotely analogous to a nuclear reactor, where a certain critical mass of fissile material must be brought together before the reaction is self-sustaining, and the damping impurities (or deadwood) must be kept below a minimum.

that picture, we must realize, belongs to a time 80 years ago. The general aim of all industrial research is undoubtedly the generation and improvement of company products, but the technological industrial complex has evolved tremendously over the last 80 years and the research process has also become more complex, more ramified into specialized functions, and higher in scientific content. As the functions of new product development, improvement of production processes, and engineering of new equipment become more technically sophisticated and involve more and more scientific knowledge, the company's development, engineering, and production staff has more and more to be backed up in depth by a group of people whose specialty is keeping up with new knowledge and the implications of scientific advance, that is, by a scientific research staff.

Keeping up with scientific advance in areas of general relevance to company interests, understanding thoroughly the ideas, and becoming familiar with details of the technology, can be done only by people who are themselves participating in and contributing to the advance. The pace of things in a fast-moving field such as electronics today is such that this dual learning-contributing function is a full time job. If the work is well directed and if the company is fortunate, the scientific contributions made may lead to original new products, and if liaison with development and enginering is good, those new products may appear in the sponsoring company's line before they appear in its competitor's. Regardless of where a particular scientific discovery is made, however, the constant traffic in new ideas and new knowledge flowing into a company through a research group is of sure benefit to its technical staff and its technical products. This may convey what I conceive to be the function and purpose of a physics research group in industry of the kind I am describing. It is this type of work which is appropriately supported by contracts from government. As one moves in the spectrum farther and farther into product development and design, government contract support becomes less appropriate relative to internal company funding, both because government support is often too slow in response and because privacy becomes important for the company's competitive position. Tax concessions are the more appropriate forms of encouragement in the development and design area. Encouragement in this latter area is obviously greatly needed in Canadian industry, but since that part of the spectrum becomes progressively of less interest to physicists, I shall not further discuss it.

What I wish to bring out is that when a company does not discriminate and looks to the research group for the wrong thing, that is, for product development, it destroys the research group. If the only measure which a company applies by which to judge whether it is getting value for the money it is spending is to ask "what new products have they come up with?", it is sure to be disappointed, it will cut funds, put the pressure on, incidentally and unintentionally destroy the atmosphere under which scientific work can be done, and the scientific personnel will fade away. Particularly is this so for the smaller research group, which most Canadian research groups will be, since the probabilities are less favourable that a really good idea will occur to someone in the group within any given span of time. And when a good idea does occur, by the way, there is no guarantee that it will coincide with that particular company's marketing interests. Small groups are thus more susceptible to what we might call the "impatience syndrome" of industrial research. When it takes charge the company loses its initial investment with nothing to show for it; then as likely as not the decision is again made to set up a new research group after the lapse of a few years. This disease must have been responsible for more wasted research dollars than one can count in the history of industrial research in the U.S. and Canada. It cannot be emphasized enough that the new products, new inventions idea is a dangerously oversimplified basis on which to attempt to justify carrying on scientific research in industry.

Another condition for existence is the demand for a high quality of personnel and output. This is because, of course, the contract-supported group is operating as a factory, with a product to sell, and the better the product the easier it is to sell. I am sure that you are familiar with the way that scientific output varies with the individual: the efficiency of any plant varies enormously with the quality of its members. In particular it must be recognized that top quality scientific people will not put up with an environment which is unfavourable for good work, or with problems which are not scientifically interesting—the demand for their services is such that they can choose their terms.

THE POSTULATIONAL APPROACH

This approach to industrial physics research might be termed the *postulational approach*: a scientific research group is set up virtually independent of current company operations, and only very generally related to possible future company interests; when the group is established and successfully operating, a bridge is built gradually to the development and engineering areas of the company by which the technical information and new ideas can flow. There is also what might be termed the inductive approach, growing directly from the needs of engineering; but

this approtch leads generally to a more limited scope of research, to a much less radical effect on company products, and eventually to administrative difficulties and poor scientific atmosphere.

To recapitulate, the experience of the last five years has shown that the conditions for success of the postulational approach to establishing research in Canadian industry are the following:

1. Industry initiative in establishing facilities and assembling key research personnel.
2. Proper understanding of the objectives and functions of a scientific research group in industry.
3. A large proportion of government contract support.
4. A quality of staff and an environment that will maintain a high scientific output.

Central to the success of this approach is the factor of government support, and this is a matter upon which all our influence needs to be brought to bear. Sources of support from Canadian government do exist, but they are very few and virtually all in the name of Defence. The Military Services do have their needs, certainly, but it would seem strange indeed if they were the only people interested in the industrial strength and productivity of this country. The existing sources have been sufficient so far in this one instance, but if similar instances are to germinate and grow in other places in Canadian industry, the outlets for Government funds must keep pace in size and in variety.

Canada has grown up, we may recall, as an industrial colony, a sales-outlet and branch-plant setup, leaving all the technical knowledge, research and development to the parent companies in the U.K. and the U.S. The result is that the technical component is missing in the mass of business thinking in Canada. When Canadians wonder what to do to increase business, to create jobs, to export products, they talk of salesmanship, cutting manufacturing costs, and manipulation of taxes, tariffs, and interest rates; the importance of new ideas, of technical creativity, of research and development seems not to occur to them. The figures which show the present shockingly feeble extent of research in Canadian industry reveal to the technical man that Canada's industrial backwardness and decline will be ensured for years to come unless some very effective measures are taken very soon. The gradual awakening of this realization and the independent initiation of research by industry over the years may well be too slow and the results too late. And the encouragements in the recent Federal Budget were miniscule compared to the shot in the arm that is needed.

Canada in its industrial-technological thinking is from 10 to 30 years behind the U.S., U.K., U.S.S.R., and Japan. This at the present rate of technological advance is an enormous handicap. The hour is late, you see.

MAN AT THE THROTTLE

For an industry which is supposed to be nearing the end of the line, the nation's railroads have been acting astonishingly spry of late. In mid-August the President of Southern Pacific turned up on the cover of a weekly newsmagazine and shortly afterward, to add fresh lustre to corporate image, the company raised its dividend. Without necessarily making headlines, Class I carriers in other parts of the country, notably the South, also have been making money; in several cases, indeed, revenues and earnings since summer have been running ahead of comparable year-ago results. Most impressive of all, on Wall Street, which long has viewed them with a cold commuter's eye, the rails have finally arrived. Last Wednesday, in a burst of steam, the Dow-Jones Railroad Average rose by more than five points, biggest daily gain in four years, to a fraction of its peak for the year.

To patient investors in railroad shares, whose holdings seemed destined to remain forever on the freight, the sudden spurt in the market has come as a welcome surprise. By the same token, the turn in the industry's fortunes promises to yield an extra dividend in terms of public policy. For the upswing ought to allay, at least for the time being, some of the widespread concern which has been voiced over the so-called emergency in mass transportation. It also provides a badly neded opportunity to scrutinize, in a setting free of imminent crisis, the effectiveness of measures taken by the federal government, notably under the loan guaranty provisions of the interstate Commerce Act, to keep carriers on the track.

On the latter score the record to date is not one to inspire confidence. Since gaining such authority in 1958, the Interstate Commerce Commission has endorsed the notes of the New York, New Haven & Hartford and the New York Central, among others. Nonetheless, the New Haven has plunged into bankruptcy. The New York Central, while still solvent, has used ICC help in the main to finance a series of unwise speculations, in particular a risky commitment in the common stock of the Baltimore & Ohio. Thereby the Central has sought to bolster its opposition to the pending merger between the Chesapeake & Ohio and the B. & O., a move demonstrably to the advantage not only of the two companies involved but also of the areas which they serve. In both cases the public credit has been used to impede, rather than to further, railroad progress and the public interest. Guaranteed loans, or outright subsidies for that matter, are a poor substitute for good management.

—*Barron's,* October 1961

Employment and Labour Costs in Canadian Manufacturing

Dr. Peitchinis cautions management about the rigidities that are being built into the total cost structure. If the present trend continues, he says, management will find it increasingly difficult to reduce labour costs substantially during periods of economic contraction.

STEPHEN G. PEITCHINIS

Since the Second World War Canada's manufacturing industries have undergone some important changes in size, nature, and internal structure. New products, modern machinery and equipment, new processes, research, and so forth, have had a profound effect on the nature and distribution of the manufacturing labour force and hence on labour costs. The purpose of this paper is to examine the manufacturing industries as a source of demand for labour, the nature of that demand, and the nature, trend and allocation of labour costs.

The demand for labour is derived from the demand for the goods and services which labour is used to produce. Hence a rapid growth of demand for manufacturing goods and services, other things remaining the same, would raise the demand for labour. Also, the demand for labour will be affected by the supply of other factors of production which are used concurrently with it in the production of goods and services. Therefore, changes in the size and nature of demand for goods and services as well as changes in the supply and nature of factors used jointly with labour in the process of production will effect the demand for labour. For example, assuming industry operations to be at full capacity, an increase in demand for the goods produced will cause an increase in the demand for production workers. At the same time, however, the demand for plant, machinery and equipment will rise.

Now a number of developments may take place: management may decide that in the long run costs per unit of output could be reduced if, instead of hiring additional workers, the higher demand could be met by replacing some of the machinery presently employed with more modern models. If such a decision is made then some workers presently employed may be replaced with technicians for the maintenance of the new machinery, and the number of administrative and office employees may be increased to cope with the increase in production and sales. The end result would be: the number of production workers will remain the same as that employed prior to the increase in demand and a small increase will take place in the number of office and administrative employees. Management may decide of course that the higher level of demand will not sustain itself and hence attempt to raise output through additional labour; or the cost of modern machinery and equipment may be such as to induce the purchase of the same kind of machinery as presently used and this will call for the employment of additional production workers. The first appears to be the trend in Canadian manufacturing industries: in 1947 they employed 947,650 production workers and 184,100 administrative and office employees; in 1958 the respective numbers stood at 981,735 and 307,867. Hence the substantial increase in output by manuacturing industries since 1947 has been mainly consequent on the deployment of modern machinery and equipment. On the aggregate the new machinery and equipment did not displace labour, although they probably forced a chage in its structure, but rather reduced the demand for additional production workers. At the same time the expansion of the market, increase in competition, emphasis on research, industrial and labour relations, etc. raised the demand and hence the number of administrative and office personnel.

CHANGED STRUCTURE OF THE LABOUR FORCE

The changed structure of the manufacturing labour force will bear significantly on the flexibility

of labour costs. Historically, employment of salaried personnel has been less flexible in downturns of economic activity than the employment of production workers. Hence the greater the proportion of labour costs represented by salaries relative to wages, the greater the inflexibility in the cost structure. If the present trend in manufacturing employment continues, whereby the number of wage earners remains static while that of salary earners rises, and employment in administrative and office positions remains inflexible during downturns in economic activity, rendering the salaries portion of labour costs equivalent to an overhead cost, management will find it exceedingly difficult to reduce labour costs substantially during periods of contraction in business activity.

In this paper an attempt shall be made to verify the following assumptions:

—That the manufacturing sector of the economy has reached a stage of employment stagnation;

—That the proportion of administrative and office employees, relative to total employment, has been rising;

—That total labour costs have remained relatively stable since the Second World War;

—That the proportion of labour costs going to wage-earners has been falling; whereas that going to salary earners has been rising; and

—That because of the relative rigidity in the employment of administrative and office personnel, increasing proportions of labour costs will become, in effect, overhead costs.

THE ECONOMIC SETTING

The objective of every business enterprise is to achieve permanence. In our highly competitive economic system, the attainment of this objective depends upon the success with which management combines product ingredients and factors of production so as to reach the minimum cost combinations. Without reducing the quality of the product nor adversely affecting productivity, the successful manager will strive to achieve combinations which would cost less than any other product ingredients and factors which he could effectively substitute for them. If the existing combination of machinery, equipment, production workers, and supervisory personnel is costlier than some other combination, it is to be expected that he will introduce the less expensive one. This is the principle of experimentation and substitution which ensures enterpreneurial success. Although in isolated instances cost reducing measures are blocked by unions, custom or management officials who fear the complexities of expansion, experimentation and substitutions go on all the time. No economy will sustain its dynamism without such measures.

The growth of an economy's productive capacity depends upon the continuous development of its human and physical resources. An industralized economy undergoing continuous structural changes can efficiently utilize its human resources only if the occupational structure of its labour force changes in a way parallel to the changes in the industrial structure of the economy. If the internal structure of business enterprises and the industrial structure of the economy change more rapidly than the occupational structure of the labour force, then over certain periods of time many human resources will be underutilized. Therefore, the mere availability of productive resources without regard to their quality is no guarantee of their effective, efficient, and profitable utilization. It is not sufficient, for example, to have a large labour force relative to the economy's overall requirements which is composed of skills that the existing structure of industry cannot utilize. The existence of a large body of unskilled labour is of little benefit to an industrialized economy which demands specialized labour.

Scarcity of specialized labour relative to the demand for it not only impedes growth but also raises costs of production. Increasing costs per unit of product consequent on the employment of *inexperienced* labour is a well known phenomenon: to meet the demand for their product in periods of tight labour markets, managers are forced to employ inexperienced workers, so that productivity per man-hour declines causing a rise in per unit costs. But increasing per unit costs of production consequent on the employment of *specialized* labour — wage as well as salary earners—has not been given due consideration.

Because of uncertainty regarding the structure of the labour market, many firms find it expedient to maintain a larger supply of specialized personnel than necessary for the maintenance of their current level of operation. In periods of prosperity they seek to ensure that the men are available if demand for the product expands further; in periods of recession to ensure that they are available if an upturn in economic activity begins. Thus an actual or assumed inadequacy of specialized personnel available for employment, in addition to the uncertainty respecting changes in the structure of the labour market, compels industrial establishments to continually underutilize certain proportions of their human resources. This practice, which appears to be fairly widespread, necessarily raises costs of production above what they would be if firms were able to hire their personnel when the actual need arises. From the standpoint of the national

economy the underutilization of specialized human resources is much more costly than the extra costs incurred in employing inexperienced labour. In fact the need for the latter frequently is the direct result of the former: by maintaining a greater supply of specialized personnel than actually necessary at any point of time, intentionally or not, some firms create market scarcity thus forcing other firms, and if well calculated perhaps their competitors, to make do with inexperienced labour. Thus both the 'farsighted,' who acquire for themselves more than adequate labour supply, and the 'shortsighted,' who are compelled to do with some inexperienced personnel, incur higher costs per unit of product than would be the case if there was no need for the maintenance of manpower reserves.

Some form of co-ordination in the allocation of human resources is necessary. Expanding industrialization involves an increasing subdivision of functions by the various parts of the economic structure. Each part has become less and less self-sufficient and depends more and more on other parts for its functioning; any malfunction of any individual part will affect the other parts and the whole system. Hence stability in the operation of the system would depend on the normal functioning of each individual part alone and of each in relation to each of the other parts and to the whole.

For some ten years after the war the Canadian economy was called upon to supply 1) consumer goods and services whose production was terminated or drastically reduced during the war; 2) industrial plant, machinery, and equipment whose replacement was postponed; and 3) an increasing demand for consumer and industrial materials from a devastated Europe. Hence our economy experienced unparalleled prosperity and relative lack of competition in international and home markets. A market situation such as this, where even the most inefficient can prosper, is conducive to the emergence of a soft, complacent, and unimaginative industrial society. In addition, our dependence on United States product research and development has greatly contributed to our complacency. Had we concentrated on the development and production of certain lines of distinctive products—in composition, quality, and design—instead of blindly duplicating U.S. models, we would have been able not only to maintain a home market, but also sell in the United States and other foreign countries without having to compete with United States products. The practice of duplicating product designs developed in the United States automatically excludes us from the vast and diversified United States market as well as from foreign markets equally accessible to United States producers. Why have we not followed the example of European countries which specialize in distinctive commodities and hence supply each other's markets? Consider for example the automobile industry: Britain, Germany, Italy, and France produce distinctive car models, and hence each has the opportunity to capture a certain portion of the other's market. We could have had a very prosperous industry had we concentrated on specializing in one model and supplying not only our market but also that of the United States. Naturally such a move would require some changes in our tariff structure and some form of understanding with United States parent companies. But for any changes to take place someone must take the initiative. We cannot claim distinction in this respect.

Another disadvantage of our close association with the United States has been the tendency of United States subsidiary companies to establish and maintain a plant and administrative structure modelled in its entirety on that of the parent company. This is convenient but ludicrously costly. Surely the administrative structure should vary directly with the volume of production and total revenue of the company. Division of labour on the administrative level can be carried so far as to be detrimental rather than conducive to efficiency. The degree of specialization required for the performance of a certain task, and the work load, should be the determining factors in establishing the administrative structure. For example, the position of sales manager should depend upon the size of the market and the degree of competition from other establishments. To create such a position for no other reason than because of its existence in the parent company is costly folly.

One of the characteristics of economic expansion is the fact that there is little regard for efficiency or economy in the early stages of developing a new invention or discovery. All efforts are usually concentrated in expansion regardless of cost. When it becomes evident that the new product or service, be it oil, uranium, or transport, is in greater demand than the existing establishments can satisfy and that the possibilities for an increase in demand in the future are present, a speculative fever attacks financial and commercial circles, which at first results in a multiplicity of new firms of varying sizes and thereafter a struggle for survival. Because of unexpected competition and high costs incurred in the period of development, the second stage is usually characterized by bankruptcies and absorptions of small firms by larger ones. In the final phase there emerge through groupings a small number of companies which, although still in competition with one another, achieve the monopoly image. This pattern is fully discernible in the history of Canadian industrial

development. Industries such as transportation, oil and gas, pulp and paper, steel and uranium are prime examples.

Presently many Canadian industries are in the second phase—a painful period of readjustment. This readjustment will take a long time if government policy continues to be based on the archaic concept of helping the inefficient to subsist instead of assisting them to go out of business. In the long run this nation will benefit immeasurably if the government's policy calls for assistance to the efficient to expand their capacity and to the inefficient to withdraw gradually. The government could grant special incentives to efficient industries such as loans at low rates of interest and greater depreciation allowances.

EMPLOYMENT IN MANUFACTURING

The manufacturing sector of the Canadian economy has reached a stage of employment stagnation. Table I shows that the proportion of the total labour force engaged in this sector passed the 20 percent level in 1941 and, with the exception of the war period, remained relatively stable to 1957. In fact the proportion employed in 1957 was almost the same as that of 1947 and equal to that of 1950.

The only substantial increase in manufacturing employment relative to the growth of the labour force took place in 1951 when it rose from 22.8 percent to 24 percent. Although this percentage was sustained and even increased slightly the following two years, a subsequent decline to 23.2 percent in the recession of 1954 set a downward trend which has continued to date.

The decline in manufacturing employment from 23.6 percent of the total labour force in 1956 to 20 percent in 1960 can be attributed to the general decline in economic activity, and to the above average annual growth in the labour force. Conversely the relative stability in the proportions between 1946 and 1956 was the result of changes in the internal structure of industry which involved mechanization and hence reduced demand for production workers.

Changes in the numbers of production and salaried employees engaged in manufacturing (Table II) reveal the extent to which the internal structure of manufacturing industries has changed. Between 1917 and 1957 the number of administrative and office personnel increased almost fivefold, whereas that of production workers barely doubled. In the decade 1947-1957 employment of administrative and office workers increased by 64 percent (see Graph I) compared with an increase of 11 percent in production workers.

TABLE I

GROWTH OF EMPLOYMENT IN MANUFACTURING AND IN CANADA'S LABOUR FORCE, 1931-1958[1]

Year	Total Labour Force	Manufacturing Employment	Percentage of Total Employed in Manufacturing
	No. ('000)	No. ('000)	
1931	4,151	529	12.7
1932	4,211	469	11.1
1933	4,275	469	11.0
1934	4,338	520	12.0
1935	4,402	557	12.7
1936	4,466	594	13.3
1937	4,526	660	14.6
1938	4,588	642	14.0
1939	4,649	658	14.2
1940	4,607	762	16.5
1941	4,466	961	21.5
1942	4,569	1,152	25.2
1943	4,567	1,241	27.2
1944	4,548	1,223	27.0
1945	4,520	1,119	24.8
1946	4,862	1,058	21.8
1947	4,954	1,132	22.9
1948	5,035	1,156	23.0
1949	5,092	1,171	23.0
1950	5,198	1,183	22.8
1951	5,236	1,258	24.0
1952	5,344	1,288	24.1
1953	5,386	1,327	24.6
1954	5,476	1,268	23.2
1955	5,585	1,298	23.2
1956	5,738	1,353	23.6
1957	5,970	1,359	22.8
1958	6,120	1,290	21.1
1959	6,228	1,295	20.8
1960	6,403	1,282	20.0

[1]Source: The Labour Force: D.B.S. *The Canadian Year book*, 1957-8 and 1960. Manufacturing Employment: D.B.S. *General Review of the Manufacturing Industries of Canada.*

Table II

Employment of Administrative and Office Employees and Production Workers in Manufacturing Industries, 1917-1958[2]

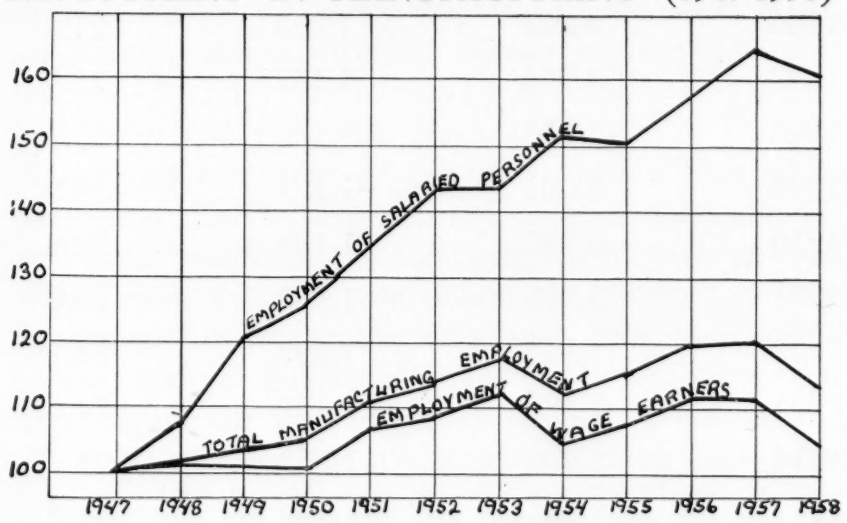
Year	Total No. of Employees	Administrative and office Employees No.	Production Workers No.	Indexes of Employment 1947 = 100 Total No. of Employees	Production Workers	Administrative & Office Employees	Proportion of Administrative & Office Employment to Total
1917	606,523	64,918	541,605	53.6	57.6	34.0	10.7
1920	598,893	78,334	520,559	52.9	55.3	41.0	13.1
1926	559,161	75,337	483,824	49.4	51.4	39.4	13.5
1929	666,531	88,840	577,690	58.9	61.4	46.5	13.3
1931[3]	528,640	91,491	437,149	46.7	46.5	47.9	17.3
1933	468,558	89,636	382,022	41.4	40.6	45.3	18.5
1936	594,359	104,417	489,942	52.5	52.1	54.6	17.6
1939	658,114	124,772	533,342	58.1	56.7	65.3	19.0
1943	1,241,068	193,195	1,047,873	109.7	111.4	101.1	15.6
1945	1,119,372	190,707	928,665	98.9	98.7	99.8	17.0
1947	1,131,750	184,100	947,650	100.0	100.0	100.0	16.3
1949[4]	1,171,207	221,551	949,656	103.5	100.2	120.3	18.9
1951	1,258,375	247,787	1,010,588	111.2	106.6	134.6	19.7
1953	1,327,451	274,225	1,053,226	117.3	112.0	143.5	20.7
1954	1,267,966	278,936	989,030	112.0	104.4	151.5	22.0
1955	1,298,469	287,469	1,010,992	114.7	107.5	150.4	22.1
1956	1,353,020	301,297	1,051,723	119.6	111.8	157.7	22.3
1957	1,359,061	313,884	1,045,177	120.1	111.1	164.3	23.1
1958	1,289,602	307,867	981,725	113.9	104.4	161.1	23.9

[2]Source. D.B.S. *General Review of the Manufacturing Industries of Canada.*

[3]A change in the method of computation increased the number of employees above that obtained by the method used prior to 1925. The old method was re-adopted after 1931.

[4]After 1949 Newfoundland included.

GRAPH I
EMPLOYMENT IN MANUFACTURING (1947-1958)



There are a number of reasons for the proportionately greater rise in employment of administrative and office employees than of production workers:

i) In 1917 a relatively large proportion of manufacturing establishments were of small size and hence employed relatively few administrative and clerical workers;

ii) The expanding size of individual industries and accompanied changes in their internal structures has meant a greater emphasis on more supervision, research, and planning as a means to raising productivity.

iii) While the expansion in size brought about a proportionate increase in administrative and clerical personnel, because of the accompanying mechanization, the demand for production workers did not rise proportionately.

iv) An increase in the size of industry, and hence in output, is necessarily the function of the actual or potential size of the market. The capture and holding of a potential market in a keenly competitive market situation such as ours entails extensive product and market research as well as salesmanship—all generating demand for administrative and office personnel.

v) There has been a certain degree of "temporary" overstaffing at the administrative level during periods of actual or anticipated prosperity because of an actual or assumed scarcity of qualified people. Likewise, overstaffing in the present ensures that people will be on hand when a later expansion is put into effect.

Likewise, overstaffing in the present ensures that people will be on hand when a later expansion is put into effect.

vi) Because the machinery and equipment of most industries had depreciated drastically—consequent on heavy war-time use and inadequate expenditures on maintenance and replacement—the only way an increase in output could have been achieved in the years immediately after the war was through the maintenance of the war-time level of employment. So the increase in output was in the main consequent on the replacement of the temporary portion of the war-time labour force with more productive workers. However, the extent to which output can be increased through the application of additional or more efficient labour on depreciated machinery is limited. Hence between 1947 and 1949, two related developments took place which had a profound effect on the structure of the labour force employed in manufacturing:

—replacement of obsolete machinery and equipment with modern ones reduced the need for production workers but increased the demand for technical personnel;

—scarcity of specialized workers relative to the demand for them brought about an increase in the employment of supervisory personnel. This development is founded on the assumption that under adequate supervision three men can do the work of five.

vii) The degree to which wage increases relative to increases in productivity have influenced this change in the structure of the labour force in manufacturing cannot be definitely ascertained. That is, it cannot be said with certainty whether the acceleration in technological progress and stimulated substitution of indirect methods of production for direct—the use of more specialized personnel and equipment relative to regular production workers—has been mainly consequent on union pressure for wage increases.[5]

Table II also reveals a number of other important facts: firstly, on the aggregate the installation of modern machinery and equipment did not displace but rather reduced the demand for additional production workers. That is, the manufacturing sector of the economy became stagnant as a source of demand for production workers. Secondly, the proportion of administrative and office employees increased from 10.7 percent of total employment in manufacturing in 1917 to 23.9 percent in 1958. Thirdly, in periods of decline in economic activity, there has been much less downward movement in the numbers employed in administrative and office positions than in production workers. For example, from the peak of employment in 1929 the number of administrative and office employees fell by less than three percent at the bottom of the depression in 1933, whereas the number of production employees fell by 34 percent. During the 1954 decline in economic activity employment of administrative and office employees actually increased while that of production workers decreased by over six percent.

Considering that the number of administrative and office employees will soon be one quarter of total employment in manufacturing, and considering further the evident rigidity of employment of salaried personnel during downturns in economic activity, industries will find more and more of their labour costs relatively inflexible.

[5]See Professor S. H. Slichter's view on this question in *The Challenge of Industrial Relations,* P. 95.

EMPLOYMENT AND VALUE ADDED BY MANUFACTURING[6]

Table III shows the relative changes in employment of production workers and value added by manufacturing industries in the period 1926-1958. In

TABLE III

EMPLOYMENT AND VALUE ADDED BY MANUFACTURING[7]

Year	Value Added by Manufacture	Production Workers Employed No.	Value Added Per Production Worker	General Wholesale Price Index
	$		$	1935-39=100
1926	1,305,168,549	483,824	2,698	130.3
1931	1,252,017,248	437,149	2,864	94.0
1933	919,671,181	382,022	2,407	87.4
1939	1,531,051,901	533,342	2,871	99.2
1945	3,564,315,899	928,665	3,838	132.1
1948	4,938,786,981	957.491	5,158	193.4
1950	5,942,058,229	952,244	6,240	211.2
1952	7,443,533,199	1,025,355	7,259	225.0
1954	7,902,124,137	989,030	7,990	217.0
1955	8,753,450,496	1,010,992	8,658	218.9
1956	9,605,424,579	1,051,723	9,133	225.6
1957	9,882,084,726	1,045,177	9,389	227.4
1958	9,792,505,931	981,735	9,975	227.8

[6]Value added by manufacturing = The Gross Value of Products — (cost of fuel and electricity + cost of materials used). That is, it represents the value added to the materials while they are in the factory. Hence the payment of wages, salaries, rent, interest, taxes, repairs, other overhead charges as well as profits can only come from such added values by the manufacturing firm.

[7]Sources: Value added and production workers employed from D.B.S., *General Review of the Manufacturing Industries in Canada.* Wholesale Price Index, D.B.S., *Prices and Price Indexes.*

1958 the number of production workers was roughly twice as large as in 1926, whereas the value added was seven and a half times greater. Examined in relation to 1945, the 1958 number of production workers was 5.7 percent higher, while the value added increased by 174.7 percent. This proportionately greater increase in value added relative to employment is reflected in a substantial rise of the value added per production worker—from $3,838 in 1945 to $9,975 in 1958 or by 160 percent.

This increase in value added per worker is often seized upon and used as an indicator of increased labour efficiency to justify demands for increases in compensation. The question arises, therefore, what factors are responsible for the increase? Firstly, the figures show the value added in money rather than in real terms. As long as price levels remain relatively stable, comparisons of value added in money terms over a number of years would give a reasonably accurate indication of changes in economic activity and industrial output. Owing to the drastic changes in the level of prices, however, account must be taken of them before any statement can be made as to the real increase in value added by manufacturing. Table III shows the changes in wholesale prices during the period 1926-1958. It is evident that a significant proportion of the increase in value added between 1945 and 1958 was the result of increases in prices. Thus while value added in money terms increased by 174.7 percent, over the same period the price level rose by 72.4 percent.

Account must be taken of the fact, however, that the increase in the wholesale price index reflected not only increases in prices as such but also the changing composition of manufactured products. As per capita income rises, the proportion of superior relative to inferior goods produced tends to rise.[8] But the superior goods, having a greater value would command a higher price. Hence upward movements in price levels over time reflect not only inflationary increases in prices but also increasing values in commodities produced.

It is well known that the creation of new products is an everyday phenomenon: had our manufacturers been contented with supplying of goods to satisfy existing demand, industrial expansion would have been limited to the extent of meeting the known demands of an increasing population. The manufacturer who limits his activity to the production of a certain good designed to satisfy a specific need and makes no attempt to alter his product to suit changing living conditions is doomed to failure. In many instances even simple alterations in the product are not a sufficient guarantee for survival: in our rapidly changing economic environment the road to success in the long run lies not only in improvements of products satisfying known consumer wants but also in the creation of new wants.

Secondly, it was pointed out earlier that the extent to which productivity will rise through the application of additional or more efficient labour upon fixed units of capital equipment and constant level of technology is limited. Hence whatever the real increase in value added, its major portion will be consequent on changes in technology, better managemen, better methods of production and many other factors. "The main productivity raisers," states Lloyd G. Reynolds, "are the scientists, engineers, savers and business managers."[9]

These statements do not imply that production workers do not contribute to increases in productivity. Such interpretation would be highly misleading; especially so when changes in values added over relatively long periods of time are being examined. In composition and caliber, the manufacturing production labour force of today is far superior to that of 1926 or even to that of 1945. The increased level of technical skills and general education of our labour force have made possible the employment of improved machinery and equipment and the adoption of new processes of manufacture. Had the technical level and level of education of the labour force remained the same as that of even 1945, most of today's machinery and equipment, as well as some of the new processes of production, would have been uneconomical to employ. The very fact that today's labour force is capable of, and entrusted with, highly complex and expensive machinery and equipment bears witness to its greater efficiency. So, even though we recognize that technological and scientific advances, as reflected in modern machinery, equipment, new product ingredients, synthetics, and many others, are primarily responsible for the substantial increase in value added, it is extremely difficult to allocate it amongst the factors of production in proportion to their relative contributions.

Nevertheless, the important fact remains that since 1945 manufacturing industries have been able to achieve phenomenal increases in value added with an almost constant production labour force. On the basis of this experience of the period 1945-1958, one cannot anticipate any significant increases in the production labour force in manufacturing.

[8]By superior goods it is meant goods of higher quality. As per capita incomes rise the demand for higher quality goods would increase while demand for and hence production of goods of lower quality (inferior goods) would fall.

[9]Reynolds, Lloyd G., *Labour Economics and Labour Relations*, third edition, 1960, p. 458.

V. Labour Costs in Manufacturing Industries[10]

The purpose of this section is twofold: to examine the changes in labour costs relative to changes in value added and to determine the distribution of labour costs between salaried employees and wage earners.

Any examination of changes in labour costs as such, i.e. without reference to value added will be meaningless. It is of no significance to state, for example, that between 1945 and 1958 labour costs in manufacturing increased by 160 percent. To become meaningful this increase must be considered in relation to the rise in value added over the same period.

Table IV shows that the percentage of value added going into salaries and wages in 1958 was only 0.8 percent higher than in 1939, and only 0.2 percent above that of 1948. On the whole, however, the trend in the proportion of labour costs to value added has been upward: that is, in most years since 1920 labour costs have either risen slightly faster in percentage terms than the value added, causing an increase in the proportion of labour costs to value added, or have fallen proportionately less than the decrease in value added, with the same result. The exceptions to this observation have usually occurred in years of rapid expansion and rising prices such as 1929, 1950, and 1955, when value added increased proportionately more than the rise in labour costs causing the proportion of labour costs to value added to fall.

The result of the proportionately greater rise in value added relative to labour costs is often also

[10]These labour costs represent gross direct payments to salaried and production personnel, and include salaries, wages, commissions, bonuses, the value of room and board, deductions for income tax and social services such as unemployment and health insurance, pensions, etc. Also included are withdrawals by working owners of normal living expenses for self and family, but not included are their withdrawals for income tax. Furthermore, employer contributions to health and life insurance plans, pensions, and personal expense accounts of some administrative personnel are not included even though they do represent payments for services rendered.

Table IV

Labour Costs and Wage and Salary Payments in Manufacturing and as Percentages of Value Added. Selected Years, 1920-1958[11]

Year	Value Added by Manufacture	Payments to: All Employees (Total Labour Cost)	Payments to: Administrative and Office	Payments to: Production Workers	Percentages: Total Payments to value added	Percentages: Salary Payments to value added	Percentages: Wages Payments to value added
	$'000	$'000	$'000	$'000			
1920	1,621,273	717,494	141,837	575,657	44.3	8.7	35.6
1926	1,305,169	625,682	142,354	483,328	47.9	10.9	37.0
1929	1,755,387	777,291	175,554	601,738	44.3	9.9	34.4
1933	919,671	436,248	139,318	296,930	47.4	15.1	32.3
1939	1,531,052	737,811	217,839	519,972	48.2	14.2	34.0
1945	3,564,316	1,845,773	417,858	1,427,916	51.8	11.7	40.1
1948	4,938,787	2,409,368	532,595	1,876,773	48.8	10.8	38.0
1949	5,330,566	2,591,891	628,428	1,963,463	48.6	11.8	36.8
1950	5,942,058	2,771,267	692,633	2,078,634	46.6	11.7	34.9
1951	6,940,947	3,276,281	816,715	2,459,566	47.2	11.8	35.4
1952	7,443,533	3,637,620	923,905	2,713,715	48.9	12.4	36.5
1953	7,993,069	3,957,018	1,016,679	2,940,339	49.5	12.7	36.8
1954	7,902,124	3,896,688	1,075,101	2,821,586	49.3	13.6	35.7
1955	8,753,450	4,142,410	1,147,142	2,995,267	47.3	13.1	34.2
1956	9,605,425	4,570,692	1,272,026	3,298,666	47.6	13.2	34.4
1957	9,822,085	4,819,628	1,403,402	3,416,226	49.1	14.3	34.8
1958	9,792,506	4,802,496	1,476,600	3,333,172	49.0	15.1	33.9

[11]Source: D.B.S. *General Review of the Manufacturing Industries of Canada.*

the reason for it being made possible: the resulting increase in profits enables manufacturing industries to invest in new machinery and equipment. In turn the resulting increase in the capital-labour ratio brings about a further increase in value added per employee. Depending on the rise in wages and salaries, the proportion of labour costs to value added will either remain stable or fall. Soon, however, difficulties emerge: the demand for capital equipment is derived from the demand for the goods and services which it is used to produce. The demand for goods and services is limited by the size of the actual or potential market. Hence a point is inevitably reached during the period of expansion beyond which investment in machinery and equipment begins to decline.

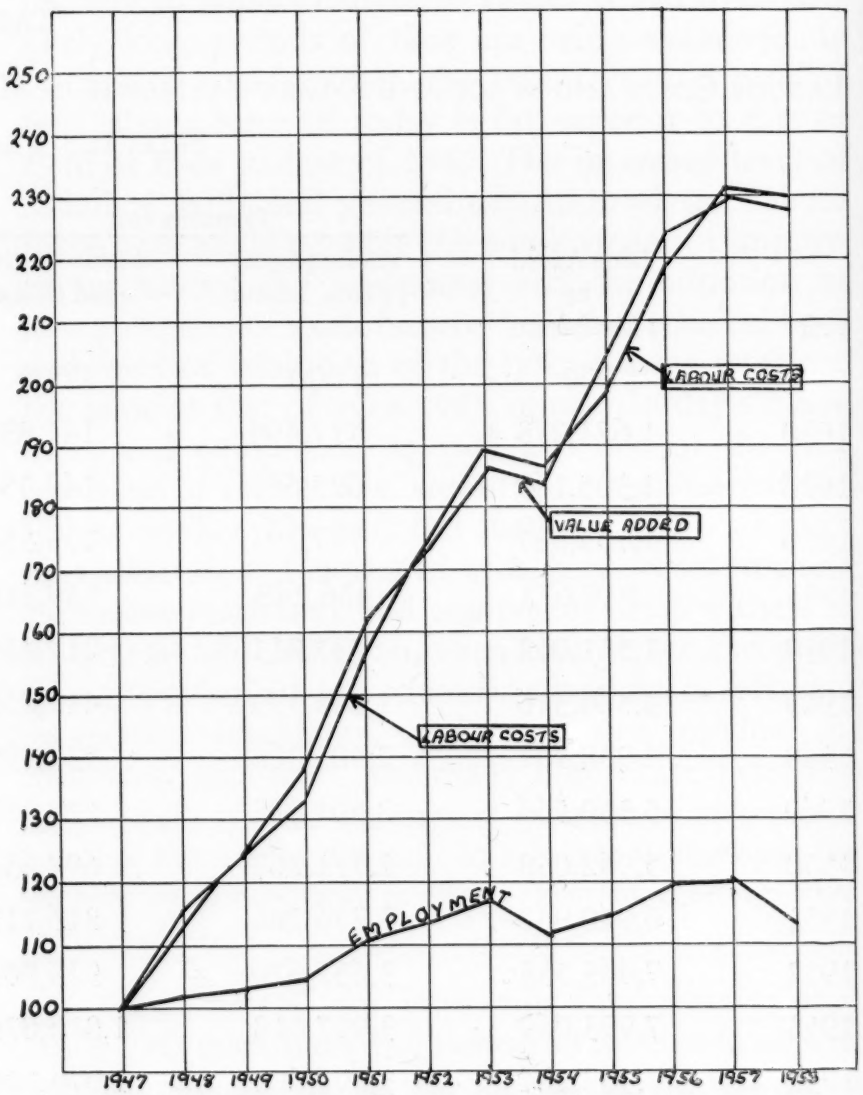
Now another problem is likely to emerge: the decline in capital investment leads to a fall in the rate of increase in value added, which is not likely to be accompanied by a proportionate fall in the percentage increase in labour costs. The data in Table IV show that the outcome would be an increase in the proportion of labour costs to value added. The statement that the increase in the total payments to employees will not decline proportionately to the fall in the rate of increase in value added is based on the following assumption: because of the decrease of expenditures on plant expansion, machinery, and equipment, increasing amounts of funds become available for distribution to shareholders. This encourages and lends support to demands of employees for increases in pay. Thus the proportion of labour costs to value added is likely to rise further.

In a soft market environment with active demand for goods and services, the demands of employees for pay increases will probably be met and the cost transferred to the consumer. The proportion of labour costs to value added will either remain stable or decline—depending on whether the price increase brought about an increase in value added equal to or greater than the percentage increase in labour costs. As long as such an environment prevails, management finds it convenient to postpone facing the actual problem—rising costs of production.

The encounter with the issue of rising costs of production does not come about until a hard market environment sets in and price increases to offset rising labour costs are no longer possible. The signal for action usually appears in the form of a rising proportion of labour costs to value added and hence a squeeze on profits. This may come about in a number of ways: firstly, if the number of units of output sold has remained unchanged from the previous year or has even increased slightly — the latter often misleads management—costs might have risen proportionately faster than prices over the year; secondly, since the market environment is hard, prices could not be raised even though costs increase; thirdly, increasing competition necessitates the cutting of some prices while costs remain unchanged or prices may fall proportionately more than costs. During the early stages of contraction the latter condition is the most likely one: competition becomes more intensive because less efficient firms begin a fight for survival which, unfortunately, is not reflected in efforts to reduce costs of production but rather in cutting prices. While prices are being cut, however, costs remain the same, or in some instances may even rise, because construction commenced in the period of expansion must be completed, materials and equipment purchased during the period of rising prices are being delivered, and the labour contracts signed during a period of optimistic anticipations have to be implemented.

GRAPH II

EMPLOYMENT, LABOUR COSTS AND VALUE ADDED IN MANUFACTURING, 1947-1958



Graph II summarizes some of our findings regarding the relationship between employment, value added and labour costs: throughout the period 1947-1958, manufacturing industries achieved a phenomenal increase in value added with a relatively small increase in the labour force. Labour costs, however,

increased in almost the same proportion as the value added. Their respective rates of change diverged to a small degree only. In periods of economic expansion value added rose proportionately faster, as during the years 1949-1952 and from the middle of 1955 to 1957, while around the end of the expansionary periods and during periods of contraction, as in the years 1953-1954 and since the end of 1957, labour costs increased proportionately faster than value added.

Table IV also shows the proportion of value added going into salaries and wages respectively. It is evident that while payments to administrative and office employees represent a rising proportion of value added, the proportion going to wage-earners has been falling. In 1920 only 8.7 percent of value added went into salary payments compared with 35.6 percent absorbed by wages. By 1958, while the latter proportion fell to 33.9 percent, salaries took 15.1 percent of value added.

This trend of payments to salaried employees taking increasing proportions of value added, which is in evidence since 1948, has some significant implications. It has been shown that employment of administrative and office personnel is much more inflexible in periods of decline in economic activity than is the employment of production workers. Hence there is greater stickiness in the aggregate of salary payments than in wages. It follows that in periods of contraction in business activity and decline in value added, the proportion of it going into salaries will rise. This is evident from the figures for 1933, 1954, and 1957. In 1933 the proportion of value added absorbed into salaries increased to 15.1 percent from 9.9 percent in 1929. At the same time the proportion that went into wages fell from 34.4 percent in 1929 to 32.3 percent in 1933. In 1954 and 1957, both years of contraction in business activity, the percentage of value added represented by salary payments increased somewhat more than in years of expansion, while the percentage absorbed by wages fell. As long as the proportion of value added going into salaries continues to rise, and employment in administrative and office positions maintains its inflexibility in downturns of business activity, management will find it extremely difficult to reduce substantially its costs of production in periods of contraction in activity and declines in value added.

A more comprehensive understanding of the changing distribution of labour costs between salaries and wages can be had from Table V.

TABLE V

LABOUR COST IN MANUFACTURING[12]

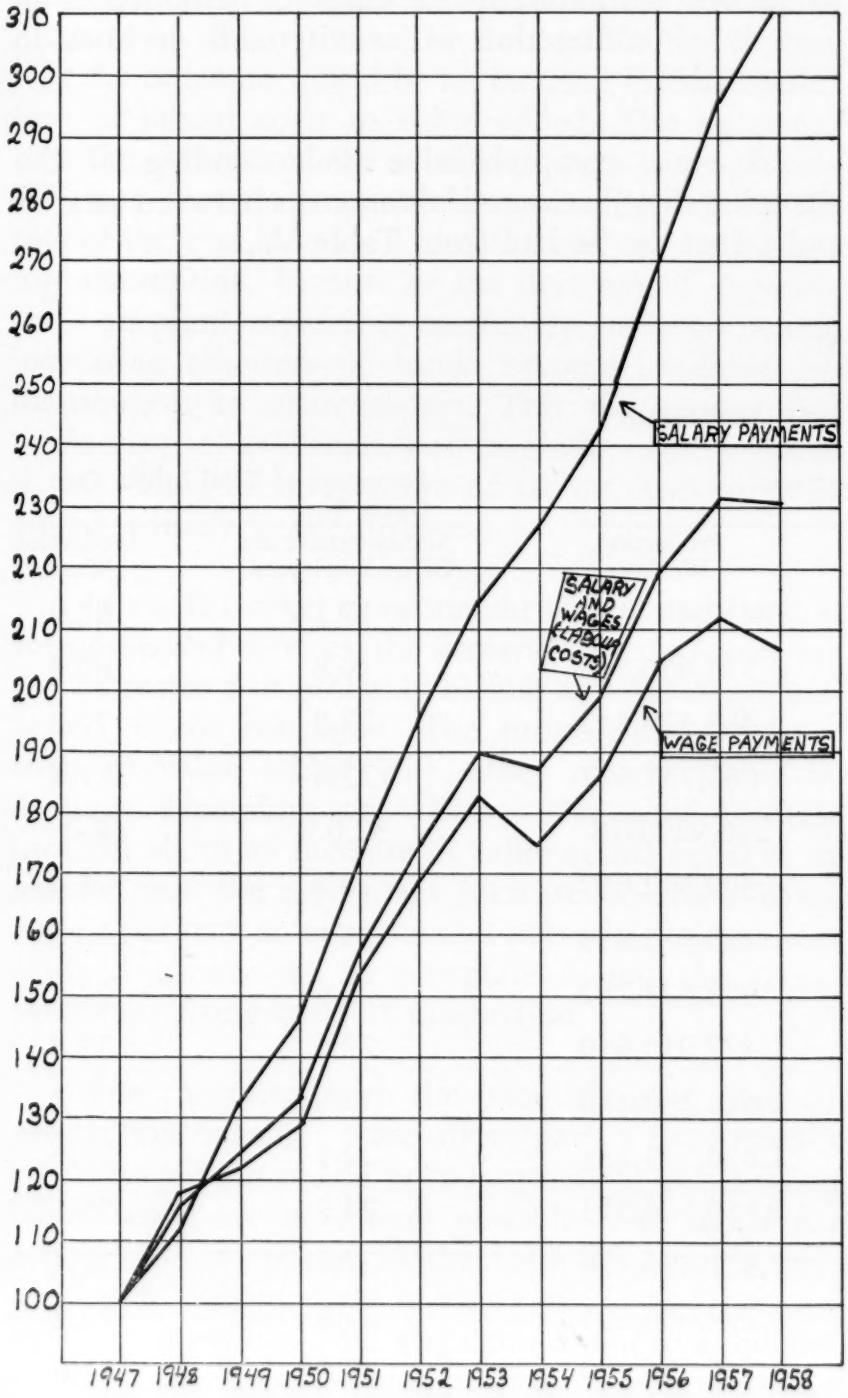
Year	Total Labour Cost (wages and salaries)	Payments to: Administrative and Office Employees	Payments to: Production Workers	Percentage of Total Labour Cost Going To: Administrative and Office Employees	Percentage of Total Labour Cost Going To: Production Workers
1917	497,801,844	85,353,667	412,448,177	17.1	82.9
1920	717,493,876	141,837,361	575,656,515	19.8	80.2
1926	625,682,242	142,353,900	483,328,342	22.8	77.2
1929	777,291,217	175,553,710	601,737,507	22.6	77.4
1933	436,247,824	139,317,946	296,929,878	32.0	68.0
1935	559,467,777	160,455,080	399,012,697	28.6	71.4
1939	737,811,153	217,839,334	519,971,819	29.5	70.5
1941	1,264,862,643	286,336,861	978,525,782	22.6	77.4
1945	1,845,773,449	417,857,619	1,427,915,830	22.6	77.4
1947	2,085,925,966	474,693,800	1,611,232,166	22.8	77.2
1948	2,409,368,190	532,594,959	1,876,773,231	22.1	77.9
1951	3,276,280,917	816,714,604	2,459,566,313	24.9	75.1
1954	3,896,687,691	1,075,101,215	2,821,586,476	27.6	72.4
1956	4,570,692,190	1,272,025,985	3,298,666,205	27.8	72.2
1957	4,819,627,999	1,403,401,749	3,416,226,250	29.0	71.0
1958	4,808,103,528	1,476,599,997	3,333,171,979	30.7	69.3

[12]Source: D.B.S., *General Review of the Manufacturing Industries of Canada,* 1957 and 1958.

The salaried portion of labour costs is significant not only because of its rising proportion but also because it is less flexible than wage costs. In periods of decline in economic activity—periods during which prices and costs should fall—wage costs have generally declined, but salary payments have failed to decline as much. As long as the percentage of labour costs represented by salary payments was relatively small their lesser flexibility did not bear significantly on costs of production. However, their proportion now stands at over 30 per cent of labour costs and is likely to rise further.

GRAPH III

TOTAL LABOUR COSTS: PAYMENT TO ADMINISTRATIVE AND OFFICE EMPLOYEES AND TO WAGE-EARNERS, 1947-1958



The data in Table V reveal the extent to which the percentage distribution of labour costs between wages and salaries has changed since 1917. It is evident that with the exception of the period 1939-1948 salary payments have represented an increasing proportion of total labour costs—they have risen from 17.1 percent in 1927 to 22.9 percent in 1929 to 24.9 percent in 1951 and 30.7 percent in 1958. The noted inflexibility in employment of administrative and office personnel in periods of decline in economic activity, and hence the rigidity in the aggregate of salary payments, is manifestly revealed by the rise in the proportion of labour costs absorbed by salaries to 32 percent in 1933. The evident reversal of the trend in 1941 was consequent on the prevailing abnormal conditions and has been attributed to "controls adopted by the government during the war years which tended to stabilize the earnings of office workers more so than the earnings of production workers."[13] Nevertheless, with the return of normal conditions the percentage of labour costs going into salaries resumed its upward course.

The steepness of this upward course is evident from Graph III. Evidently payments to salaried personnel have risen continually since 1947. Even in periods of business contraction such as 1954, when payments to wage-earners declined by about 7 per cent, the payments to salaried personnel increased by over 12 per cent. Hence the relative rigidity in labour costs in downturns of economic activity is caused by increases in salary payments rather than lack of decreases in wage payments. If this trend is permitted to continue—whereby in periods of decline in business activity the aggregate in salary payments increases so much as to offset the decrease in the aggregate of wage payments, management will find it impossible to reduce labour costs. This will become even more difficult as the number of administrative and office employees rises and hence the aggregate of salary payments becomes an increasing proportion of total labour costs.

The tendency of payments to salaried personnel to rise in contractions of economic activity has introduced greater inflexibility in total labour costs and makes it so much more difficult for business to reduce its prices. The decrease in output, with costs remaining the same, raises the per unit cost of production. Hence price decreases are more likely in periods of expansion than contraction in output.

[13]D.B.S., *General Review of the Manufacturing Industries of Canada*, 1957, pp 80-81.

The obvious question is: to what can one attribute the rise in the aggregate of salary payments to almost one third of total labour costs? Does it mean that on the average salaries have risen proportionately more than wages? It was noted in Table II that consequent on changes in the internal structure of industry the number of administrative and office employees has been rising proportionately faster than that of production workers. The data showed that between 1947 and 1957 the former increased by 64.3 percent, whereas the latter rose by only 11.1 percent. Hence the rising percentage of labour costs represented by salary payments can be attributed to the more rapidly increasing numbers of salaried employees than of production workers. In fact, because of the very small rise in the number of the latter their average annual earnings increased more than those of salaried empolyees. In 1958 the average annual earnings of production workers were about 345 percent higher than in 1917, almost 250 percent higher than in 1939, and 98 percent above those of 1947; whereas those of administrative and office employees show an increase of 263 percent above 1917, 173 percent over 1939, and 92 percent over 1947.

TABLE VII

AVERAGE ANNUAL EARNINGS OF SALARIED AND WAGE EMPLOYEES IN MANUFACTURING, 1917-1958[14]

Year	Salaried Employees $	Wage Earners $	Percentage Change 1947 = 100 Salaried	Wage Earners	Wage Salary Differential[15]
1917	1,315	762	52.9	44.5	57.9
1920	1,811	1,106	72.9	64.6	61.1
1926	1,890	999	76.1	58.3	52.9
1929	1,976	1.042	79.5	60.8	52.7
1933	1,608	777	64.7	45.4	48.3
1935	1,638	870	65.9	50.8	53.1
1939	1,746	975	70.3	56.9	55.8
1941	1,801	1,220	72.5	71.2	67.7
1945	2,191	1,538	88.2	89.8	70.2
1947	2,484	1,713	100.0	100.0	69.0
1948	2,687	1,960	108.2	114.4	72.9
1951	3,296	2,434	132.7	142.1	73.8
1954	3,854	2,853	155.2	166.5	74.0
1956	4,222	3,136	170.0	183.1	74.3
1957	4,471	3,269	180.0	190.8	73.1
1958	4,773	3,395	192.0	198.2	71.1

[14]Source: D.B.S. *General Review of the Manufacturing Industries of Canada,* 1957 and 1958.

[15]Average annual earnings of production workers as a percentage of average annual earnings of salaried employees.

Some of the possible reasons for the more rapid increase in the average annual earnings of production workers relative to those of salaried employees are:

i) The relative compositions of the two groups of employees have changed substantially during the periods under examination. The proportion of unskilled workers relative to the skilled and semi-skilled has been declining. This will tend to raise the average earnings of the whole group. At the same time the proportion of the low salaried personnel, i.e., clerks, typists, etc., has been rising relative to the higher salaried occupations; this will tend to pull down the average for the whole salaried group.

ii) Production workers have greater opportunity to augment their earnings through overtime work than do salaried employees. On the other hand salaried employees receive certain tax exempt payments, in the form of meal tickets and expense accounts, which are not reflected in their earnings.

iii) Prior to the Second World War there was a surplus of wage earners in the labour market which depressed the average earnings of the whole group—relative to the earnings of salaried personnel who were in short supply when compared with the demand for them. This is reflected in the earnings differential (Table VII); the average annual earnings of production workers remained at just over 50 percent of the annual earnings of salaried employees through most of the period 1917-1939.

The gap began to narrow in 1941 when the percentage increased to 67.7 percent. By 1945 it rose to 70.2 percent. Two main factors influenced this change: scarcity of labour during the war which caused an increase in overtime work and hence of earnings; and secondly, the government's war-time controls which appear to have been more favourable to wage than to salary earners. If this is correct, to what then can one attribute the fact that the earnings of production workers as a percentage of those received by salaried employees increased to 73.8 percent in 1951 and to 74.3 percent in 1956? There are three possible explanations. Firstly, the composition of the production labour force changed; now the proportion of skilled workers relative to unskilled increased pulling upward the average earnings of all wage-earners.

Hence without any actual increases in rates of pay average earnings would have increased. Secondly, the scarcity of labour, especially of skilled labour, and reduction in the regular work week during the post-war industrial expansion caused a substantial increase in overtime work. Thirdly, the increase in demand relative to the supply of skilled production workers raised their rates of pay. It will be noted that when the 1957 decline in industrial activity set in, and hence the need for overtime work diminished and the demand for skilled workers became less intensive, the earnings of production workers as a percentage of those paid to salaried employees declined from 74.3 percent in 1956 to 73.1 percent and further to 71.1 percent in 1958.

It will be noted that unionism is not given credit for the proportionately greater increase in the earnings of wage-earners compared with those of salary-earners. The writer is not convinced that collective determination has raised wages above what they would have been had they been determined by the free play of market forces. The fact remains, however, that relative to their numbers wage-earners have obtained a greater share of the "labour income" provided by manufacturing industries. Conversely, this would mean that the share of labour income going to the salaried group has diminished relative to the number of employees within the group.

The editors would like to correct a printing error made in the article "Railways, Railway Wages and the Nation" by Dr. Peitchinis, Summer 1961.

In the statement, on page 82, "The level of wages prevailing in other countries should be taken into account," countries should read companies.

LIVING IN THE FUTURE

To the typical consumer, payday is a point in time when he considers whether his dollar should be saved, spent or pledged. He hears the competing whispers of "Cash on the barrelhead" and "You can't take it with you." The old debate goes on—installment saving for a future benefit versus installment payments for a present benefit. Debt can be a prod, a stabilizer or a burden to an individual's progress, depending upon his attitude toward the future.

Actually, if the history of economic growth is used as evidence, the installment buyer has the edge on the argument. There is a middle course that balances saving and spending, a sensible range which is neither miserly in its thrift nor foolhardy in leaning on the edge of tomorrow. Consumer installment purchases are no different in risk principle from commercial, bank or government credit. All credit rests on a measure of confidence in the borrower's ability and willingness to fulfill a promise within a prescribed time limit.

Despite all the criticism we hear of consumer credit excesses, the over-all net loss to installment creditors, when measured over a generation of record, is only 1%. Delinquency rates in current bank installment loans hover between 1% and 2%, and there is considerable competition among the outstanding loans for autos, appliances, house modernization and other personal needs.

Excessive borrowing from tomorrow's income can, of course, be disastrous to both buyer and seller, especially when the repayments eat deeply into the family budget for food, clothing, shelter and other necessities. And this can happen. For instance, the loudest competitor for the male apparel dollar is the automobile loan.

The U.S. economy needs the stimulus of installment buying. It also needs the sober impulse that puts the thrift dollar aside. The dollar saved is the substance of our credit system. Here is an important source of funds for the man on the business frontier who creates both capital and consumer goods.

We cannot have a prosperous economy without the buoyancy that time payments give to the activity of the market place. It is only when the consumer puts his earnings in hock on too large a scale, over too long a period, that he becomes enslaved to the calendar and impoverished by the insistent bits out of the paycheck. Prosperity, which calls for confident spending, disappears when the lure is extended too far in the future and the time penalty represents too large a proportion of the sales price.

America has a credit-motivated economy in which, by the end of 1960, installment debits stood at $43.3 billion — proof indeed that there is no growth without risk. Even though current bad debt losses approach 2%, the shrinkage is small compared to the capital invested and profits accrued. However, the pledge for tomorrow is most secure when it is balanced by yesterday's thrift. A healthy share of disposable income is now going into personal savings, and installment buying is being held in reasonable check. The future is our most promising asset. Let's make the most of it!

—*Dun's Review,* September 1961

NEW MARKET FRONTIERS OF NORTH AMERICA

An eminent advertising executive outlines factors which attest to the presence of unsaturated markets and disclaims the market saturation theory as being too rigid to serve as a useful guide to business and government officials.

EMERSON FOOTE

The phrase *Saturated Markets* has reached the maturity of a cliché. The expression *Unsaturated Markets* has the merit of being affirmative rather than negative, optimistic rather than defeatist. But it also has another merit—it has a realistic foundation, which I would like to develop briefly.

Together, Canada and the United States have a gross national product of close to $550 billion. Each country will probably show about a 50% increase in output by 1970—so that together we should reach $800 billion by the end of this decade. In a sense, this is impressive—but, as we are constantly reminded, the U.S. rate of productivity gain has fallen well behind that of Western Europe and Japan. On the basis of present trends, the Canadian rate of gain will likely be somewhat higher than that of the United States.

ARE OUR MARKETS SATURATED?

I am sure you are familiar with the views of various economists who believe that our economy is a *mature* economy. Part of this thesis is that our production facilities are so prolific that they have brought us the dilemma of providing more products than we know how to distribute and consume. We are told that our production abundance forces intensive advertising and selling efforts that often reach a stage of diminishing returns. Consumers, it is claimed, must ultimately pay for strident and aggressive advertising in behalf of products which they do not need. Some of this thinking underlies the notion of *Market Saturation*. Saturation is given as a reason why certain consumer goods industries have failed to maintain very high levels. It is said that people have plenty already—how can they use more? Those who advance this belief point to the enormous output of consumer durables since the end of World War II and to the very high standards of living in our countries in comparison with the rest of the world. They also point to the present slack in these markets and to the failure of continued growth in many consumer goods fields. In short, they find market saturation.

Although the term saturation is highly graphic, it is dangerously misleading if it is accepted uncritically and becomes the basis of national economic policy. In my belief, saturation mistakes the nature of our consumer markets and the way they operate. One fact about consumer markets is the changing pattern of income distribution. New markets have been created by the elevation of income groups from one level to a higher level. Groups with incomes that support bare subsistence are still sizable, but it is possible they will have moved to more comfortable levels by 1970 and will then lose their identity as subsistence groups.

THE GROWING CONSUMER MARKET

As income distribution moves upward, the consumer market grows and changes. For example, strong demand for sporting goods and boats develops as middle-income families rise to what were formerly upper-income levels. Mass markets develop as low-income groups move to levels that used to be middle-income. Markets for economy-type products die out as income distribution advances beyond them. These facts of the dynamic and highly differentiated character of consumer markets are ignored in the concept of saturation—which seems to assume a static market with a frozen ability or inability to consume.

We are also faced with rapid change in consumer tastes and in technology that results in new products. To some small degree, this change goes on in cycles. That is, products and styles go out of favor and then return again. But, in the main, the change in the combination of products on the market is progressive; old products are left permanently behind as new products gain consumer acceptance. What goes on is really a complex redirection of con-

sumer tastes and preferences. Far from promoting saturation, this change in available products constantly builds new demand.

The consumer market is also growing, not only in terms of income, but in numbers of people. Each year the United States and Canada add about a million new families, and this rate is expected to rise significantly by the middle of the Sixties. It is an understatement to say that newly formed families are in a highly *unsaturated* condition. Here is a source of automatic demand not only for food and clothing, but for housing, home furnishings and appliances, and cars—not to mention education and public services. The saturation theory should also be judged in terms of a particular tax environment. Certain products encounter buying resistance because of certain tax structures. It is difficult to say how much more they might prosper under different tax conditions. Other things being equal, an increase in personal taxes would shrink consumer markets, while a tax reduction would make them grow.

As a theory, then, the idea of saturation is much too rigid and static to serve as a useful guide to businessmen or government officials. It ignores the play of influences that enlarge some segments of the consumer market, while shrinking others, and that generally press the total market upward as population and income levels rise. It is difficult to measure the potential of an individual product — to know *how far from saturation* it may be. Each has its own life cycle, and few of us are wise enough to know at any given time whether a product is in its adolescence, the prime of life, or in its late decline. Any product is subject to being pushed aside by vigorous new youngsters that are heavily promoted when they appear on the market.

THE REPLACEMENT MARKET

But to look at our markets as a whole—I do not believe that they are any closer to saturation than they were 15 years ago when we were entering the most dramatic production and sales boom in our history. It has become a maxim of marketing that yesterday's luxury becomes tomorrow's necessity. Think of the dramatic change in purchases of housewives over the past 50 years. In the early 1900's, most family shopping involved the basic staples of living—flour, sugar, salt, coffee, meat, and a few basic fabrics. Today, any shopping center sells many thousands of many different products. Not only new products but well-established products may hold a growing potential. There is no question that the housing industry in our countries will have both a broadening new market and a replacement market. Or to take another example—in a sense a most surprising example—that of automobiles. Our cities are so crowded with cars that it might seem that automobiles have reached a saturation level. Nevertheless, one of every three American automobiles is seven years of age or older. Their replacement would create a market as large as all car ownership outside the United States. It would absorb about 3½ years of automotive production at its present rates.

We are faced with the paradox that we now have huge unsaturated markets side by side with idle production facilities. Recently in the United States, the actual operating rate in iron and steel has been about 50% of capacity; machinery about 70%; autos, trucks, and parts also about 70%; chemicals, 75%; and foods and beverages about 80%. The average operating rate in relation to capacity for all manufacturing has been less than 80%. The challenge is to apply a marketing philosophy and marketing techniques to put this idle capacity to work.

THE VALUE OF MANAGED OBSOLESCENCE

A related theme to that of the saturated markets is the indictment of product obsolescence. On the one hand, we are constantly reminded by voices in and out of the government of the necessity for national growth—while, on the other hand, we are charged with contributing to waste through bringing out new products and new models. That is to say, we are urged to grow, but, at the same time, we are told to abandon one of the most invigorating forces of growth that any economy has ever discovered.

In subscribing to what might be called *managed obsolescence*, I am not speaking of extremes. No sane businessman believes in having little boys run through town breaking windows so that windowpanes will have a shorter life-cycle and will need faster replacement. The kind of obsolescence I have in mind is the kind that has greatly energized our economies and that can advance the growth we urgently need today.

Popular criticism of obsolescence seems to me to arise from a glaring fallacy. It is charged, for example, that Detroit devises minor design and mechanical modifications in each new car model that do not add up to an important reason for replacing last year's new car. This shows naive misunderstanding. For the automobile industry does not expect, when it brings out new models, that car owners will bring their 60 million cars to junk yards and all buy new models. You and I have never seen an auto advertisement, saying "Why not get rid of that car you bought *new* last year and buy the model we're now bringing out?" Actually, the ownership of the

average car extends over a period of four years and seven months. The year-by-year improvements are intended, and actually serve, to stimulate year-by-year sales. It is true that model changes often encourage a certain small proportion of car owners to trade in their cars each year. Detroit welcomes their business, but it also recognizes that these annual buyers constitute a small fraction of the total market.

The criticisms we hear of obsolescence suggest that yearly changes in the automobile, appliance, or men's clothing industry are made to induce replacement of *recent* purchases. But manufacturers do *not* call upon people to get rid of what they have just bought. Conversely, manufacturers *do* add value to a new product to justify a shorter life cycle of an old product—let's say from five to four years in the case of cars, or three to 2½ years in the case of men's clothing. It does not seem wasteful for prosperous countries like ours to promote more frequent buying.

Some of you may have an electric shaver which you bought five or six years ago. Meanwhile, there may have been several new models. You may not have felt that the improvements of the first or second model change following your purchase justified buying a *new* shaver. But perhaps now, after five or six years or so, manufacturers may have persuaded you that the cumulative improvements during this time were worthwhile. If they can give you value, I cannot see that they or you can be charged with economic waste. And after five o'clock you may be looking and feeling better.

There are reasons of good value for replacing a consumer product as well as for replacing an industrial plant; and that is why approximately half of today's consumer products were not on sale a short ten years ago. I would add that if we were to modernize our plants, without modernizing our products, we would have automated assembly lines making buggy whips.

Alexis de Toqueville, writing about the United States in the early 1800's, clearly understood this. He recalled that he had once asked an Amercan sailor why we built ships with a shorter life span than the ships of England and France. The sailor replied that the art of navigation was making such fast strides that it would be ridiculous to make a ship that would last forever. Surely, today, many other skills and products—from housekeeping to aviation — are also making fast progress, requiring product change.

THE ROLE OF MARKETING

In the coming years, it will be more and more urgent to encourage policies of product innovation and to refine those techniques that increase the chances of new product success. This is a subject of marketing far more than of production. And it is one in which we will be more and more involved. Demand for new products will combat the chances of market saturation. The spectacular advances in productivity have generally developed on the side of production. We see almost daily headlines on new uses of mechanization and automation in manufacturing. Marketing hardly ever rates a mention in contributing to productivity.

Many of the advances in distribution are the result of new procedures and new concepts. Sometimes they are as visible as a supermarket, but they may be as abstract as the marketing communications cycle. But still the facts show that distribution advancement is lagging far behind gains in manufacturing. Distribution is absorbing a steadily larger proportion of the nation's workers. While the number of manufacturing workers has grown two and one-half times since 1900, the increase in workers engaged in trade has been fourfold. (These figures are for the United States—but I believe they might be close to experience in Canada.) Since 1950 output of the average service employee has risen by less than 20%, compared to some 35% for the goods-producing employee. Transactions of the average retail employee have risen by less than 10%. As far as we can determine, productivity gains in distribution are at the average rate of 1% a year compared to an over-all gain for the economy of 3%. It is obvious that those of us engaged in distribution have the opportunity — if not the obligation — to make faster gains.

Advances in marketing have indirectly resulted in better and fuller use of our human resources, and have thereby increased productivity. Productivity is normally measured by output per worker. But many household innovations in recent years have made possible a larger total labor force as a result of the freeing of women — both housewives and domestic workers — from 12 and 16-hour work days in the home. During the past ten years in the U.S., some four million women have been added to the labor force compared to two and one-half million men. Women are helping to take the place of students remaining longer in college—where enrollment has climbed more than a staggering 60% in ten years; and women are replacing older people who are retiring at an earlier average age. To repeat, this entrance of women into the labor market has been made possible largely through advances in marketing.

Appliances, convenience foods, new cleaning aids are all products of manufacturing; but almost all of them have been conceived and developed with-

in the area of marketing. They have come about through intensified concern with the changing needs and wants of the consumer. We have no measurement of this total contribution to the national product, but we can judge it to be considerable. In this and other ways, marketing makes an indirect, even a concealed, contribution to productivity. Again — higher productivity — especially in marketing — is a preventive of saturated markets.

ADVERTISING'S ROLE WITHIN MARKETING

In striving for larger and more active markets, we can recite an impressive record of contribution that marketing has achieved in recent years. But in view of the needs of national growth, we can only expect that the demands upon marketing will grow. Those of us concerned with advertising will be asked more insistently to develop advertising's role within marketing and to increase its efficiency. Some $12 billion are currently spent in advertising in our two countries—a sum which is not likely to escape the notice of either business or the public. Just as dollars spent for machinery must prove more productive from year to year, so must advertising dollars.

A current indication of management's thinking about advertising is revealed in a recent study conducted by the Association of National Advertisers. Responding corporations ranged from small to giant, with products ranging from package goods to industrial items.

One question uncovered management's basic attitude: After advertising men have made a proposal, what are the most frequent comments of client board members? The most common answer by far was this criticism:

"Management is asked to approve advertising expenditures for which the yardsticks for returns on investment are poorer and fewer than in the case of any other company disbursement."

Many of the executives interviewed wanted answers to the following questions:

1) What do we get for what we spend?
2) What is the optimum level of expenditures?
3) What is the best way to judge the effectiveness of the proposed campaigns and ads?
4) How do we make decisions on when to switch from one major medium to another?
5) Is there a cost reduction program to increase efficiency and eliminate waste?

You can see all these questions are really aspects of the basic question: "What do we get for what we spend?"

One executive vice-president said, "There are only two questions, simple to say, but more difficult to do: (1) How much to spend, and (2) How to spend most effectively. Some people say you are unrealistic if you try to get the answers to these questions. But we have insisted on better measurements and finally the answers are beginning to come through."

THE NEED FOR CLEARLY DEFINED OBJECTIVES

Advertising has made tremendous progress since most of us started in business, but even today it is extraordinary to find how few are the advertising programs that have clearly defined objectives. Here are a few examples. One objective I came upon was stated: "To build a greater sense of confidence on the part of the financial community that money invested in this company is being invested in a strong, growing, soundly-managed company." Another objective reads: "To establish younger audience appeal and to remove the stigma that the product is used primarily by old people." Another: "To establish this product eventually on a national basis."

Now each of these is a laudable objective, but to achieve them, far more than advertising would be required, and, therefore, the role of advertising is left unclear. A communication objective should be oriented to a company's mission. It should be *achievable, timely,* and *measureable,* and it should take into account the weight of communications and competition, potential new products, and the effectiveness of other forms of communication in the total program. These are some objectives that fit these requirements.

One reads: "To increase awareness among housewives, between 25 and 40 years old in metropolitan markets, that the X company manufactures a given product—the increase to be 15% over a six-month period." Another objective might be "to increase dealer traffic during a specified period by 20% over the same period in the previous year." Or another might be: "To increase the volume of inquiries for a mail order product by 20% over the previous year while reducing the average cost-per-inquiry by 5%."

Often when the advertising objective is vague, there is a tendency to overpromise. As impressive as advertising's record has been in building mass distribution, it still cannot be credited with miracles. It has very definite limitations. Advertising, for example, cannot produce a desirable product; it cannot establish an optimum price; it cannot provide a convenient, saleable package; it cannot put the product in the best shelf position; it cannot negotiate the best sales terms; it cannot maintain inventory; it cannot

negotiate instalment terms; it cannot train a sales force; it cannot report on the product or on its own performance in the market. Advertising can affect some of these activities, but it cannot cancel their omission or failures.

There is no escape from the conditions under which advertising works. Anyone with responsibility for the advertising expenditure of a business cannot ignore these conditions. He should take them into account, not only as a matter of auditing resistance, but, if possible, to find ways—imaginative ways—to help advertising bring higher returns. Let me say, incidentally—in setting communications objectives—that advertising management, whether in the client company or an advertising agency, is involved in a broad sector of the advertiser's business. This is unavoidable. What it signifies is *not* that advertising management is taking over responsibilities outside its specialties, but that it is taking every possible measure to succeed in the area for which it is held accountable. In short, advertising management has a responsibility to see a business as a whole—to relate advertising to the company's mission—for the success of its own specialty.

THE TOTAL STRATEGY

Advertising must be judged in the context of a company's total activity. Within this total picture, *profits* provide a measure of a company's over-all *administration. Sales* provide a measure of its *marketing operations. Advertising* should be accountable for that *proportion of sales* which advertising dollars bear to total marketing dollars. The problem then is to select advertising goals which are either sales goals in themselves or, since this is seldom feasible, goals which we know from experience will contribute to sales—like level of awareness, dealer traffic, etc. To judge the influence of advertising, we must isolate it from all other variable influences that create sales.

Now, while we may wish to separate advertising for purposes of measurement, over the years advertising has proved most productive when it is conceived in close relation to the total marketing effort. It is separable in its techniques and its craftsmanship, but it is *not*, I believe, separable in its purpose. We can and should assign objectives to advertising and we should check our progress in achieving them. But we should be careful to relate advertising objectives to sales, to marketing, and finally to profit goals.

You may very well decide that your advertising or merchandising, or publicity is successful on the basis of certain stated objectives. It is still important to know whether you have the optimum *weight* of advertising, or merchandising, or publicity represented in the total effort. A segment of a program may be successful on the basis of certain objectives, and still it may represent a waste of money if a competitor comes along who has a far more efficient "communications mix." Let us say, theoretically, that advertising is assigned 25% of a communications budget. The objective for this advertising must then be shaped within the limitations of this 25%. If advertising represents 75% of the total budget, then a bigger objective can be assigned to it. The point is this: If objectives are set independently of the total strategy, the result is to put the cart before the horse—and to move advertising farther away from the function of producing sales.

The whole communications process involves *goals, guidance, message,* and *measurement.* During a period when business must arrest the decline of the profit ratio, if not reverse it, we should be very clear about what we wish advertising to accomplish and then to measure the accomplishment. We may never be able to compute the returns on advertising as we do for machine tools, plant, or even research and development. But I am altogether convinced that if management insists on measurements, those who provide its various communication services will not only help develop good measurements, but they will be concerned to a greater degree with creating communications that serve established objectives. In this way we can be satisfied that we are not making general claims, for example, that an advertising program is "enhancing the company image," or "building prestige," or "developing a favorable trade climate"—all of which it may do. Rather, we can point to *measureable* progress on specific assignments—each of which was determined in the first place to help yield a profit.

Test your own company's communications programs with these challenges:

1) Does the program have objectives that support the company mission . . . that are achievable? . . . specific? . . . timely? . . . measureable?

2) Have benchmarks been established for the program to measure its performances against a previous year?

3) If benchmarks have been established, how well is the program doing—both in relation to past experience and in relation to present competition?

It is surprising how often these simple challenges cannot be answered. And yet they are basically the same challenges by which management audits other corporate investments—to decide whether or

not they contribute to profitability. With an increase in advertising volume over the next ten years, it will become twice as hard to be heard, Advertisers will need the finest imagination and showmanship to rise above the general decibel level of selling. But we will also need more and better measurements to tell us how well we are succeeding.

Unsaturated markets and advertising efficiency might seem like two distinct subjects directed respectively to the sales and advertising members of your organization—but I assure you they are very closely related.

Unsaturated markets can have meaningful potential only when they are effectively developed. Efficient marketing and its most visible vehicle—advertising—can help develop this potential through more efficient advertising programs. This can be advertising's most tangible contribution to a thriving economy.

IT'S DONE WITH MIRRORS

When you expand a zero, you still have nothing. That's about all inflation can promise us in the long run.

Of course, we ought to define what inflation is, and what it is not. A rise in wages or prices is inflationary when it is the result of union featherbedding or marked-up labels on the same old hat, chair or auto. A rise in wages in prices is *not* inflationary if we get more productivity or a better product. When we raise our standard of living with better housing, better transportation or better cultural facilities, we have to pay for it. Our living standard is at a generous level, and our prosperity is based on the ability to buy the good things of life. We could not have prosperity if we were on a mere survival basis. By the same token, prosperity based on productivity is not inflation.

The danger is not in a generous definition of prosperity, but in our willingness to take something for nothing and expect a net gain. A shockingly high percentage of businessmen—particularly retailers—feel that moderate inflation is desirable. They reason that it reduces sales resistance, increases gross profits, helps out concerns with heavy indebtedness and speeds up the collection of receivables.

All this is a way of "riding the gravy train." It is an illusion of progress. Inflation is a lazy cover-up for lack of business energy and ingenuity, mediocre sales promotion and wishful thinking. Momentum cannot take the place of management direction. When inflated sales programs run out of steam, mediocre managers suffer, and the old law of the survival of the fittest eliminates hundreds of badly managed firms.

The management progress of any enterprise, from the corner store to the billion-dollar manufacturer, is measured in terms of obstacles overcome and ingenuity displayed under competetive stress. Profits and growth are the rewards of management vision and know-how. The alert manager does not wait for a sales push from an inflationary wind.

Whenever the business cycle takes a dip, the same hard lesson is repeated. Good management meets the challenges of falling sales volume. It finds a way to cut costs and weeds out the deadwood. Manufacturers who are determined to succeed replace inefficient machinery and get back on equal terms with their competitors. Retailers clean out their sluggish inventories, restudy the market and put some zip into the sales people back of the counter.

Any businessman who welcomes inflation is taking a thief into partnership. Sooner or later he will regret it. Inflation is a sedative that softens the healthy warnings against lax selling effort, lower quality standards, obsolescent equipment, poor productivity and complacent top management. Deflation is the brutal realist which sends inventory values crashing, lets the air out of management reputations and turns black ink into red in a few months.

Something from nothing? It has never been done, at least not since the Day of Creation.

—Dun's Review, July, 1961

Canadian Mutual Funds

Mutual funds have become a basic part of our capital market. Are the present designs of these funds static or may we expect continued innovation here as in other of man's institution?

WILLIAM J. REDDIN

What are the differences between the open end investment company, popularly termed the mutual fund, and the closed end company? Let us take a look at the open end company — its organization, marketing methods, competitive forces, regulatory environment, and the mutual funds themselves, and consider some of the current problems now being faced, some of the existing practices of questionable value to the investor, and some of the long-run changes that might occur.

THE INVESTMENT COMPANY

An investment company is an organization that combines the capital of many relatively small investors to purchase stocks and bonds. Thus a share in the investment company actually represents a part ownership in the many securities that the investment company has purchased. Experienced management is usually employed to give the company's investment continuous supervision; for this, a management fee is charged which is usually about ½% to 1% of the net asset value annually. Thus, some view a purchase of investment company shares as a purchase of management and diversification that the individual investor could not otherwise afford. Some few investment companies have a fixed or semi-fixed portfolio and are thus not subject to continuous management; once the basic portfolio has been purchased, very little change may be made.

Investment companies fall into two distinct classes. One, known as the *closed end* investment company, has a fixed capitalization and only rarely increases the number of its shares outstanding. By contrast, the *open end* investment company, or *mutual fund,* continuously increases the number of its shares outstanding as demand warrants.

During the 1920's many closed end investment companies were organized in Canada. At that time they were generally known as 'investment trusts,' but this expression fell into disuse, partly owing to the many proven instances of mismanagement and catastrophic performance of trusts during the depression. There are now about twenty well known closed-end investment companies in Canada, having total assets of about $300 million dollars with about eleven million shares outstanding. Very few new ones have been organized in the last thirty years.

While closed end companies do not usually issue additional shares so that more investors may participate in the fund, it is relatively easy to buy and sell the existing shares through a stockbroker. Some of the companies are listed on the stock exchanges. Since these shares are purchased from existing shareholders rather than from the company, the price may fluctuate greatly and may at times vary significantly from the true value of the company as suggested in the shares of other companies it owns. The price is, to a certain extent, a result of bargaining between the buyer and the seller, so that it reflects the interests of investors in the company as well as the intrinsic value of the company. In almost all cases closed end investment company shares trade below their apparent or book value. One very large and well known company has often sold between 30% and 45% below its apparent true value over the past ten years.

Closed end companies are not too popular with investors because information is not readily available on them, few companies offer any special purchase plans, their performance tends to be much more

erratic than the performance of the open end investment companies, and dividends are difficult to reinvest in any regular fashion.

The first mutual fund in Canada to issue its shares to the general public was the Canadian Investment Fund Ltd., which did this in 1932. Two other mutual funds were organised in the 1930's, Commonwealth International Corporation Ltd. and Corporate Investors Limited. About thirty-five other mutual funds have been publicly offered to Canadians since that time. Here, however, we will discuss only those publicly offered Canadian mutual funds available to Canadian investors, although a few funds have been organized in Canada specially designed for foreign investors. Examples are the Beaubran Corporation, organised in 1947, and Canafund, organised in 1950, which both provide a vehicle for European investment in Canada. In 1954 the first of the non-resident owned (NRO) funds was organised and named the Scudder Fund of Canada. These NRO funds must invest primarily in Canada, reinvest all earnings, and have 95% of their owership in non-Canadian hands. In January 1961 the combined net asset value of all the mutual funds offered in Canada amounted to about twice the total assets of all the closed end funds.

Open end companies are quite popular with the investor because the investment company at all times stands prepared to buy back its shares at the net asset value. The shares of these companies are not listed on the stock exchanges as the company itself usually reserves the right to buy and sell its shares; thus the price of a share is a function of the value of the securities in the companies' portfolios rather than of supply and demand. Most funds in Canada offer new shares at the current net asset value plus some sales or load charge and redeem them at net asset value. This net asset value is often calculated twice daily but, with some smaller funds, may be calculated as infrequently as once per week.

ORGANIZATION

The organization of the open end investment company varies widely from fund to fund. Some mutual funds are no more than trust funds administered by a separately incorporated management company. The mutual funds, in this case, are not themselves incorporated and thus the interest and dividends received from their investments are not liable for income tax. These receipts form part of the personal income of the contributors to the fund whether actually distributed to them or not. This type of organization characterizes the Mutual Income Fund and the Mutual Accumulating Fund, as well as the three funds operated by Supervised Investment Limited: Supervised American Fund, Supervised Growth Fund, and Supervised Income Fund.

Another form of organization takes the form of a company capitalized with both common and preferred stock. The small number of common shares are issued to the management group while the rest of the capital stock, in the form of redeemable preferred shares, is issued to the investors. In this type of fund, the contributors are preferred shareholders in name only as this particular designation arises from governmental opposition to redeemable common, although American growth fund was allowed to do this. Corporate Investors Limited and Investors Mutual are examples of this type of organization.

Most of the funds in Canada, particularly the smaller ones, have been organized by Canadian investment houses, while some of the larger funds such as Canadian Investment Fund and Investors Mutual received their initial impetus from the United States.

Many mutual funds rely on an interlocking or independent group of corporations for their operations. Very often the management company is separately organized and deals essentially with policy, administration, and sometimes promotion. And often an investment advisor is retained whose sole function is to advise one mutual fund or a group of mutual funds operated by the same management company. Some funds have retained incorporated sales organizations which have management independent of the fund itself. Obviously, a combination of these separate corporations can sometimes produce a very complex organizational structure.

MARKETING

Marketing methods vary widely among mutual funds. Some funds, such as Investors Mutual, Commonwealth International, and United Accumulating, engage a large sales force to solicit for contributions; others such as Canadian Investment Fund have developed very effective broker support. This latter fund has a well developed street market and many brokers regularly maintain an inventory of this fund's shares. Some funds, especially those which have no sales or load charge, rely on extensive direct mail promotion to market their shares. Some of the funds using this marketing technique are the 'supervised' group. Most of the speciality funds such as Growth Oil and Gas and some of the smaller funds sponsored by smaller investment houses have no apparent active marketing program and thus experience very slow increases in contributions from investors.

Mutual funds encounter competition from three main sources: other mutual funds, life insurance, and direct investment. Investors are typically quite ignorant of the advantages of one fund over another and usually get exposed to only one source of advice such as a broker, a salesman, or a friend. Bankers are sometimes approached, but they usually recommend one fund which seems to have the most conservative image. Even when an investor attempts to compare funds he finds that comparative performance figures are practically impossible to obtain and, of course, wonders whether past performance really means anything.

Life insurance does not offer as serious competition as it might to mutual funds, at the moment, owing primarily to the splendid performance records of mutual funds over the past ten years, together with their liquidity, diversification, and the convenience they offer. Cases of switching cash values of life insurance holdings into mutual funds have occurred many times, particularly when a mutual fund salesman has a strong anti-insurance argument. This type of salesman is in a minority, however, and it seems probable that within the near future life insurance will establish itself more firmly as a complementary rather than a competitive savings opportunity. The competition offered by the conventional means of investing directly is not serious either, except with the wealthier prospects. A sizeable proportion of the mutual fund purchasers are those who have never purchased securities directly while many larger purchasers have both mutual funds and stocks and bonds in their portfolios.

Unlike the United States, Canada has no special federal regulatory act for investment companies as such. However, all mutual funds in Canada are subject to the provisions of the dominion or provincial companies act under which they are incorporated. In addition, they are subject to the provisions of the various securities acts of the provinces in which they may offer their shares for sale. The funds are not as extensively supervised as are funds in the United States, owing primarily to the historically greater responsibility, through informal self-government, of the Canadian financial community.

VOLUNTARY RESTRICTIONS

Most mutual funds hedge themselves with voluntary restrictions which provide additional protection to their subscribers. Some of the most common restrictions prevent funds from buying on margin, selling short, borrowing money, pledging assets, acting as underwriter, or participating in stock pools.

Section 69 of the Income Tax Act provides that investment companies be taxed at the rate of 21% on taxable income. To qualify as an investment company, a corporation must have at least 80% of its property throughout the year in shares, bonds, marketable securities, or cash; must derive not less than 95% of its income from these sources; must obtain not more than 25% of its gross revenue from interest; must obtain not less than 85% of its gross revenue from sources in Canada; must invest no more than 10% of its assets at any one time in the shares, bonds, or securities of any one corporation or debtor other than governments; must have not less than 50 shareholders, none of whom at any time during the year owned more than 25% of the shares of the capital stock of the corporation; must distribute not less than 85% of its taxable income during any one year.

Canadian tax authorities effectively exempt the incomes of investment companies and their shareholders from double taxation by allowing a 20% dividend tax credit to offset the 21% rate of tax that the investment company pays on its taxable income.

Owing partly to inadequate disclosure legislation, some mutual funds in Canada fall a long way behind their American counterparts in the information revealed by their annual reports. This is, of course, true for many Canadian financial reports. Proxy statements and annual reports of many of our large corporations do not compare with those in the U.S.A. Many of our reports lack much basic comparative financial information which is needed to change an annual report from a mere show piece put out by the public relations department to that of a document useful for analysing a company's past performance and predicting potential performance.

Our better funds do give fairly complete annual statements of operations; they do give portfolio holdings; and they usually show the changing net asset value of the fund over its life. They should all show their holdings at their cost and market value each year, the portfolio changes made during the year at cost and selling price, the dividends received and paid, and the expenses and the taxes on a 'per share' basis; but not all of them do this. They do not usually make periodic reports of policy and policy changes, nor do they discuss their apparent success or failure. All this information is readily available to the fund; why should it not be so to the fund shareholders? The basic reason, of course, is that the federal or provincial Companies Acts do not require funds to go into this detail; until this situation changes, only the enlightened mutual funds will really give the investor

an insight into what is happening. It is difficult to legislate qualitative reporting, but some improvement of existing disclosure legislation could easily be made.

The irony of all this is that some funds are among the most vociferous critics of standards of financial reporting because it is through their analysis of annual reports, among other investigations, that they make their investment decisions.

CLASSIFICATION OF MUTUAL FUNDS

Mutual funds may be classified by the investment objective, the types of securities in which they invest, the industries in which they invest, borrowing power, dividend policy, and the cost of acquisition or redemption of their shares.

THE OBJECTIVE

Every mutual fund is required to make available to its prospective shareholders a statement of its management policies, procedures, and operations. In this document, known as the prospectus, it is customary for mutual funds to outline what they consider to be their investment objectives. Most of these statements of objective revolve around security of principal, regularity of income, and appreciation of capital. Funds may be classified by their objective as follows:

1. Growth of capital	'Growth Fund'
2. Provision of steady income	'Income Fund'
3. Some balance between 1 & 2	'Conservative Fund' or 'Balanced Fund'

Sometimes in Canada, the term 'balanced fund' is used to describe a 'conservative fund,' at other times, as in this article, the term 'balanced fund' is used to describe a fund investing in both stocks and bonds. Some funds are quite specific in their objectives. The Supervised Growth Fund has the following, "To provide a diversified investment in stocks of Canadian corporations most likely to grow through the expansion of production facilities and natural resource development."

Most funds, however, seem to want to be all things to all men and issue prospectuses announcing, for example, the following objectives:

1. To provide a reasonable rate of return upon its shareholders' investments
2. To protect the value of their investments
3. To achieve long term capital appreciation consistent with the fulfilment of the first two objectives.

While some of these objectives may seem clear enough, fund managers do not always meet them. There is ample evidence from past performance figures that some funds stressing growth have, in fact, grown at a slower rate than those stressing income. The lesson to be learned is that it seems unwise to take a fund's stated objective as its true objective. In some cases, of course, the line between a *growth* fund and a *conservative* or *balanced* fund will be a narrow one; all funds clearly cannot be expected to fit neatly into one of three categories; rather, they range from the most aggressive growth fund to the safest income fund.

BOND, STOCK, AND BALANCED FUNDS

Mutual funds may also be classified by the type of securities in which they invest. Some are known simply as bond funds or stock funds. Others invest in both bonds and stocks and are called balanced funds. Most of the funds in Canada are of balanced type. All the existing Canadian funds which invest only in stock should be classified as growth funds such as the Supervised American Fund. This description of the difference between bond, stock, and balanced funds is something of an oversimplification because funds investing only in common stock could be income funds. On the other hand, it seems a misnomer to label a fund with 2% of its assets in bonds as a balanced fund.

DIVERSIFIED AND SPECIALITY FUNDS

Most funds in Canada are diversified; that is, they invest in the securities of many industries. Some are speciality funds investing only in the securities of one specific industry and possibly its related industries. Most of the speciality funds are aggressive growth funds which try to take advantage of what they see to be a very bright future for a particular industry. Two typical speciality funds in Canada are the Growth Oil and Gas Investment Fund of Canada and the First Oil and Gas Fund. These funds, as their names indicate, have invested all their capital in the securities of oil and related industries. While these funds do have the disadvantage of low diversification, their investment policy has the advantage of developing in the fund managers an intensive knowledge of the specific industry in which they are investing.

While diversification has always been considered as wise principle, too much diversification by mutual funds can indicate an abdication of judgement which

may not produce as high a long-run return as might otherwise be obtained. Some funds have up to 150 securities in their portfolios; surely risk does not have to be spread quite as thin as that! In defence of such large portfolios, mutual funds point out that many Canadian companies are so small that large funds have to invest in a great many companies to avoid buying too heavily into any one of them. While this is true to some extent, there does seem to be some evidence that some funds list a great many securities in order to attempt to cater to a wide variety of investors' tastes; it helps to sell the fund.

LEVERAGED AND NON-LEVERAGED FUNDS

Some mutual funds are allowed by their charter to borrow money for investment purposes. That is, they use leverage, or trade on the equity. Several Canadian funds have a charter provision allowing for leveraged investment, although, in Canada, this provision has been little used with the exception of the Commonwealth International Leverage Fund.

DIVIDEND AND COMPOUND FUNDS

Some funds, such as Mutual Accumulating Fund, recognizing that their shares are purchased only for long term capital appreciation, do not pay dividends. All the dividends are automatically reinvested in the fund. Because dividends compound, these funds are known as Compound or Accumulating Funds.

The majority of mutual funds, however, pay regular dividends quarterly or at least annually. Some funds will make monthly dividend payments if a certain minimum investment is made. For those requiring a regular income, regular dividend payments are obviously very important. Those funds that do declare regular dividends usually allow the investor to leave his dividends with the fund for it to reinvest for him.

LOAD CHARGES AND REDEMPTION FEES

The majority of mutual funds in Canada charge a fee, over and above the net asset value, to the purchaser. A few, however, ask for no fee when the fund is purchased; instead, they charge a small redemption fee payable when the shares are redeemed. One fund uses neither of these techniques, using a straight brokerage fee instead.

The load charge usually amounts to between 8% and 9% of the offering price of the shares. A share selling at $10 having a net asset value of $9.10 has a 90c load charge, which is 9% of the offering price of $10. If this load charge were shown as a percentage of the net asset value, as some think it should be, it would show as 9.9%, the percentage that 90c is of $9.10. Mutual funds calculate the percentage load charge on the offering price rather than the bid price and thus it looks smaller than it really is.

Most funds have a sliding scale of load charges. The more of the fund purchased, the lower the load charge. This does not benefit many people because this sliding scale does not usually operate until the size of the purchase exceeds $10,000 to $25.000, depending upon the fund purchased.

A few mutual funds such as the Supervised Growth Fund have no load charge. Instead, they have a small redemption fee that is paid when shares are sold. The Supervised Growth Fund charges a 1% redemption fee. Many of these funds were originally set up as a service to the small clients of investment advisory concerns, so that the advisors could conveniently pool the savings of the smaller clients and thus manage them much more cheaply. Others have been organized for the general market by brokerage and advisory concerns which, presumably, hope to obtain some revenue from the commissions involved in buying and selling securities for the fund. The absence of a load charge is an attractive feature to any purchaser provided that the performance of the fund has not in the past fallen too far behind the performance of other funds with the conventional load charges. No-load funds are usually small because there is no strong incentive for broker or salesman to sell the fund as the load usually pays their commission.

Twenty-nine Canadian mutual funds being offered to Canadians were surveyed in the preparation of this article. These funds account for more than 95% of the total assets of funds within their class. Of these, thirteen were classified as growth funds, twelve as conservative or balanced funds, and four as income funds.

Twenty-four of these funds have no particular restrictions regarding either the nation or industry in which they invest. Three however are limited geographically. Two of these may invest only in securities of the United States and one must invest primarily in the securities of Europe. Two of the funds are limited in their investments to securities of the oil and gas industry. Twenty-six of the funds could be described as balanced funds as they may invest in both stocks and bonds. Two may invest only in stock and one may invest only in bonds.

Only five of the twenty-nine funds have a charter provision permitting leverage but only one has used it to any extent. Twenty-three of the funds have a sales or load charge, in most cases between 8% and 8½% of the offering price. Four of the funds have a 1% redemption fee, one charges standard commission rates, and one has both a load charge and a redemption fee.

Every fund has a management fee of somewhere between one third of 1% and 1%. The funds charging the full 1% were those with no sales or load charge.

Three of the funds were organized in the 1930's, one in the 1940's, one or two for every year from 1950 to 1961 with the exception of 1954 when three funds were organized and 1957 when six were organized. Fifteen of the funds have under five million dollars in assets. Ten have between five and fifty million, four had above fifty million. The largest fund has more than forty-five thousand shareholders, and three others have more than twenty-five thousand.

THE OUTLOOK

The Canadian funds are now facing several problems, which they will have to find some way of meeting in the future. One or these is the relatively narrow selection of good quality Canadian stocks available. In many industries only two or three stocks of investment quality are available, some of these have narrow markets and are thus difficult to buy or sell in quantity. Another problem is the rising number of Canadian mutual funds every year. This not only aggravates the problem of limited stock selection but also introduces additional competition for the investor's dollar. Another problem is the growing interest in the variable annuity. The variable annuity is essentially a life insurance plan with a guaranteed minimum payment at maturity, but, in addition, offering the possibility of some appreciation of this minimum amount depending upon the fortunes of the company. The variable annuity, offered by life insurance companies, can offer strong competition to mutual funds as, from the purchaser's point of view, it combines both the guarantee of insurance and the capital appreciation possibilities of mutual funds.

Some present day practices of mutual funds are of questionable value to the investor. Some funds use a heavy front end load with contractual purchase plans. These contractual purchase plans require the investor to make regular payments, usually monthly, to the fund over a period of many years. The front end load requires the investor to accelerate his sales or load charge so that most of it is paid in the first few years of a ten year plan. The effect of this is that in the early years of his investment a large proportion of the investor's funds may go toward sales commissions rather than to purchase mutual fund shares. If the investor cancels the plan within the first few years, he might, with some funds, only obtain about 50% of the total amount he had invested. If the market had declined appreciably, he would get much less. At least one provincial regulatory commission has objected strongly to this practice and has required one fund selling it to modify its contractual purchase plan. Later this change was introduced voluntarily by the fund in all the provinces. Mutual fund managers claim that the front end load is really a blessing for the investor as it deters him from cancelling his investment program for fear of losing money. This argument undoubtedly has merit in some cases. However, there is still little evidence available to illustrate that the front end load is a strong enough deterrent to warrant its continued use.

Another practice that mutual fund companies should attempt to curb is the misleading statements made by some salesmen. Too many of these salesmen work on essentially a commission basis with a consequent interest in a sale rather than investor satisfaction. Some grossly mislead investors about insurance, some infer guarantees where none exist, some point to a tripling of investment in ten years and thereby *prove* that with continuing inflation a $1,000 investment will amount to $27,000 in thirty years. It *might* increase, but it *might not.* Life insurance salesmen are as prone to this kind of behaviour as mutual fund salesmen, but this is surely no excuse for the mutual funds.

The future will obviously bring some changes to the industry, and this is about all that can be said with certainty. However, it seems probable that sales or load charges will tend to drop to lower levels than the current 8% to 9%. Some U.S.A. regulatory bodies are showing growing concern over the size of load charges. and one big U.S. brokerage house is considering the introduction of a fund with a 5% load.

In the past few years, several Canadian funds have shaved their maximum load charges or have reduced the amount of investment necessary to secure a lower load charge. In the distant future it seems possible that some further integration of life insurance companies with mutual funds may well take place. This will involve some changes in legislation before becoming widely adopted. but it seems to be a natural step and a sensible one from the purchaser's point of view. Unbiased advice should be available to explain how to integrate both life insurance and

mutual funds into a lifetime protection, saving, and investment program. Mutual funds may also be expected to offer a wider variety of services. Some now offer face amount certificates which guarantee a fixed sum in a fixed number of years, several have a wide variety of purchase and redemption plans, some are developing close ties with life insurance companies. A combination of face amount certificate and straight mutual fund is similar to some forms of life insurance, and a greater flexibility in programming to fit individual needs can occur when mutual funds offer a wider variety of services and plans.

THE PENSION BENEFITS ACT OF ONTARIO

The June 20th Budget Address of Finance Minister Donald Fleming requested "the co-operation of the provinces in a program to deal with the solvency and portability of private pension plans". In mid-August, the Honourable Leslie M. Frost, Prime Minister of Ontario, authorized the release of a draft of "An Act to provide for the Extension, Improvement Solvency of Pension Plans and the Portability of Pension Benefits". If implemented in its draft form, the Act would drastically change the whole face of private pension plans in Canada and would almost inevitably lead to (or hasten) a national contributory government-administered pension system in Canada.

The point was made quite strongly, when the draft bill was released, that it was only "a working document" designed to encourage suggestions from interested parties, including the federal and provincial governments.

The draft bill goes even further than the recommendations of the Ontario Committee on Portable Pensions (see *The Bulletin* for April 1961 and May 1960) which was established in early 1960 to study methods whereby pension plans could be improved and the "portability" of pension benefits, from job to job, could be increased. It appears that the acorn of portability has germinated, quickly flourished and become the oak tree of compulsory pensions.

Some of the areas of compulsion which would apply to each employer who carries on business in Ontario, *with 15 or more employees resident in Ontario* (a "mandatory" group), are:

— the employer *must* maintain a pension plan in force for the mandatory group for all periods of employment after 1964, providing a *minimum* pension to commence not later than age 70 of approximately $2 per month for each year of service after 1964;

— each employee in the mandatory group who has attained age 30 *must* participate in the plan, regardless of his period of service;

— each employee in the mandatory group who terminates his employment after age 34 with one or more years of service *must not* be allowed to receive a refund of his contributions made after 1964 but *must* receive entitlement to a pension, provided by employee and employer contributions made after 1964, to commence not later than age 70;

— each employer *must* satisfy the Pension Commission contemplated by the draft bill that his plan provides a funding arrangement which is *adequate* and which will meet tests for *solvency* on the basis of regulations, a draft set of which will be made available to interested parties in due course. (Employers carrying on business in Ontario who have *less* than 15 resident employees but who have a pension plan in force *must* meet the tests for solvency.)

It is interesting to note that the draft bill includes under the definition of "employer", "Her Majesty in Right of Canada, Her Majesty in Right of Ontario or an agent of Her Majesty." This could pose some interesting problems when it comes to dealing with solvency.

The draft bill also provides for substantial fines and imprisonment for non-compliance. It goes on further to provide that where fines have been collected they may be paid to a Central Pension Agency for the credit of the covered employees of the payer.

In essence, then, the draft bill envisages compulsory current savings for pension benefits, "locked-in" until a "normal" retirement age, for the vast majority of the working force in Ontario.

A strong case can be made for greater portability of pension benefits but serious objection can be taken to many of the principles of the draft bill, quite apart from the severe administrative and technical difficulties the bill would impose. Though the "pension problem" of most women in the working force is different from that of most men, the draft bill envisages identical treatment.

Another fundamental point hinges on inflation. What comfort is it to a terminated employee of 45 to look forward to the payment of a stated number of dollars as a pension commencing 20 years hence without even the *option* of being able to receive his own contributions back in today's dollars for investment against the erosion of inflation? What comfort is it to a man of 45, unemployed and with savings exhausted, to know that $3,000 contributed *by him* to a pension plan lies in a fund unavailable to him until he is 65? Locked-in pension benefits will undoubtedly reduce future Old Age Assistance requirements but will also create the anomaly of current welfare payments being paid to people with several thousand dollars of untouchable savings, savings which would otherwise have been used to obviate the necessity of welfare payments. Perhaps more fundamental is the fact that employers would be clearly discouraged from voluntarily making any improvements in existing pension benifits. In practice, it must be expected that many employers will *diminish pension benefits* for service after 1964 to compensate for the *additional* costs of providing vesting after age 34. There is the very real danger that the *minimum standards* set out in the draft bill will become *the* standards for pension plans in Canada.

—*Canadian Actuary Bulletin*, September 1961

Selecting Supervisory Personnel

Individual companies can do much, suggests the author, to improve their selection process by making their employment departments more aware of the costs of poor selection and of the shortcomings of various selection techniques, especially psychological tests. Productivity, efficiency, and, quite often, organizational goals are at stake.

NEIL A. MACDOUGALL

The selection of a chief executive was once no more difficult than identifying one's eldest son. The secular decline of proprietorships has been accompanied by a corresponding increase in the number and size of corporations. These slow-moving giants need vast numbers of supervisors and managers to direct the efforts of their staffs. As the industrial revolution proceeded, and was followed by Taylor and his disciples of scientific management, as the applied sciences matured, there was a similar exponential growth in professional personnel. Engineers, chemists, accountants, and now physicists and computer mathematicians, have become as common in the large corporations as they are in universities.

Thus selection has passed from being an almost automatic process to a large, arduous, and complex one. Decisions on who is hired are no longer made by owners, but by the growing managerial class and their deputies, the ever-expanding employment departments.

Nevertheless, the object of selection is the same: to eliminate the unfit, although few proprietors can have viewed their sons so candidly. The programme should, to paraphrase a saying well-known in logistics, put the right man in the right job at the right time. To fail to do so means higher costs, lower productivity, possible impairment of efficiency and morale, and perhaps even failure to attain organization goals.

In this paper, employment departments and the process of selection are referred to often. Neither is intended to imply concern with only recruitment of personnel from outside an organization. The evaluation, selection, and placement of existing staff, which should be continuous, is even more important. Much of what is said here about outside selection applies to inside placement.

SPECIAL PROBLEMS IN SELECTION

Although today's increased social and geographical mobility gives an employer a relatively greater choice of candidates, his selection task is more difficult. Today's complex professional and managerial jobs demand men in the upper ranges of the normal distribution curve of human abilities. Indeed, many of the applicants for such jobs are clearly in such an area. Graduation from a recognized university, increasingly a requirement in such positions, provides a rough guide to ability. Since so many candidates for senior positions have this qualification, the selection job becomes one of discriminating between the candidates from a narrow range of the upper end of the normal distribution curve.

This is a much more difficult job than selecting labourers and skilled or clerical workers. The consequence of an error in selection can be very large, perhaps the ruin of the corporation. Moreover, an error in the selection of a president may not be detected for years, perhaps when it is too late.

Managerial and professional workers have many-sided jobs, which call for judgment, skill in human relations, a knowledge of one and sometimes many complex technical or business fields, and many other attributes. Each of these characteristics must be identified, sought, evaluated—and then against elusive standards. The motivations of such people are complex and not readily probed.

As we shall see later, jobs are also complex and hard to define. They change with the organization, technology, social pressures, competition and chief exec-

utives. A man may still make his own job. Titles mean different things in different companies. Thus placement should no longer be a matter of fitting a square peg in a square hole and forgetting about it. One must identify the shape of the hole, and the directions in which it is changing, locate and identify a peg (also changing, not necessarily at the same rate or in the same directions), and match the two. Placements should be reviewed regularly thereafter.

SELECTION TOOLS

In some respects, hiring a man is not unlike selecting a machine. In each case, one must basically make a comparison between the job requirements and the quality and characteristics of the "tool." Just as science has outstripped humanity's ability to handle its inventions, so have selection techniques for machines outstripped our ability to select the right man for each assignment. Indeed, some quite sophisticated statistical techniques and economic studies are used or made before some machines are purchased. A supervisor or professional employee, who may be with an organization two or three times as long as a machine, rarely has the same attention lavished on his selection, although selection of the wrong man may cost many times the purchase price of a very large machine. In spite of the serious consequences of incorrect selection, many techniques known as long ago as 1919 are not in widespread use.

INTERVIEWS

The most-used and most-abused tool in the placement officer's armoury is interviewing. Although Yoder describes it "of questionable reliability," interviews are indispensable in the selection of supervisory and professional personnel.[1] Many of the shortcomings of the interview exist in supervisors' assessment of their men's on-the-job performance. A prospective employee who is rejected because of a supervisor's unrealized prejudices or poor interviewing might have failed on the job for the same reason. It is not enough to do a good job; your supervisor must think you do a good job. Similarly, a man who is a first-class accountant may fail to be hired because he does not present himself well, or because he is too introverted for the interviewer.

The face-to-face interchange of the interview, with its attendant emotions, gives the participants a feeling of comprehension. The interviewer, especially, is likely to feel that he *knows* the candidate. This impression is formed in a hundred ways, many of them only dimly realized, if they are realized at all, by the interviewer. The candidate's dress, handshake, voice, mannerisms, physique, sense of humour, race, employment record, choice of words, and place of birth, among other things, all have their effect. If the interviewer is not careful—and some are not—he is apt to integrate these characteristics, unconsciously assigning a weight to each, and come up with a brief, all-inclusive description like, "He's a good type," without really knowing why.

A good interview should evaluate a candidate's abilities, motivation, emotional stability, physical factors, attitudes, and behavioural patterns. These characteristics are too complex to appear of their own accord. The interview's many limitations stand in the way of a good evaluation.

THE LIMITATIONS OF INTERVIEWS

Most of these are well-known, although one wonders if action is as widespread as knowledge. There is the "halo effect," the tendency to carry over one ability into other areas. It is dangerous to assume that a person who is neatly dressed is a neat draftsman, or that someone who is intelligent, ambitious, and aggressive is equally promising in other fields. Leading questions must, of course, be avoided since anything which suggests an answer to a candidate undermines the accuracy of the interviewer's impression.

Some people have biases of which they are not aware. Others generalize on the basis of one or a few experiences. Such feelings result in stereotypes like "Engineers are poor at human relations," Hungarians are too aggressive," and "Oxford graduates are snobs."

In the same class is the tendency of some to hire mainly personnel from their home town or Alma Mater. Perhaps this proclivity is related to the human failing of measuring others, not merely by our standards, but by ourselves. For example, the chief engineer who insists that he doesn't "care if all my men have written five sups," is not likely to have been an honour student.

Each man has his own notions about human nature. The candidate's remarks, which are coloured by the connotation of his words, must be interpreted by the interviewer against his own standard. A change in interviewer is likely to change the standard. This is demonstrated by the reaction of ten companies seeking a young engineer. Although each was seeking a man for a similar job, only one firm made the man an offer.

The problem is complicated by the interviewer himself, for his reactions may not be consistent; they may

[1]Dale Yoder, *Personnel Management and Industrial Relations,* New York: Prentice-Hall, Inc., 1942, p. 20.

change with his moods. Certainly the person being interviewed reacts to the interviewer. An interviewer who appears warm and sympathetic to a candidate will get a completely different impression of the man than an interviewer who is stoney-faced and dour.

This is perhaps not surprising, for no general principles of assessment have been established, largely because the laws of personality on which they must be founded have yet to be formulated and verified.[2] The O.S.S. staff, which had tested 5,400 recruits, spent several months attempting to formulate such basic concepts and theories, but had to give up when the majority of staff members would not accept them.

Some of these shortcomings are minimized by the pattern or standardized interview. This technique is supposed to systematically develop all information about the applicant, to minimize the halo effect, and to set up a framework on which information about the applicant can be reviewed and a selection decision made.[3] When used conscientiously, it is probably the best selection tool available.

THE SUPPRESSION OF INFORMATION

Everyone knows that a candidate may not *act himself* during the assessment period. He may be nervous, have a cold, have been in divorce court, have been out of work for six months, or have been studying too hard for night classes.

Since the candidate is in an inferior bargaining position compared to the company, he seeks to minimize his disadvantage and lack of other opportunities by "putting his best foot forward." This may take the form of falsifying employment dates, avoiding mention of criticisms made of him, withholding reasons for discharge, giving answers which he hopes will be acceptable, and "cooking" psychological tests.

Companies may also withold information from candidates, usually unconsciously. In addition, there is a natural reluctance on the part of the interviewer to say anything about company politics, profit trends, impending mergers, or reorganization. A knowledge of the existence of such situations might influence a candidate's reaction to an offer of employment.

Both the interviewer and the candidate tend to make assumptions. These result in a tacit agreement not to explore some areas. For example, both sides assume the other is ethical, or at least has the same standard of ethics. Later, on the job, real conflicts may develop as a result. An engineer may feel his boss is prostituting science when company advertisements describe quality control laboratories as "costly research establishments which have evolved these revolutionary new manufacturing processes." The sales manager-boss may not be aware there is a conflict, for he is just doing what he has always done and what his competitors are doing.

In another instance, a vice-president of a medium-sized company was in the habit of keeping incoming invoices locked in his desk and paying them at his leisure. The president of the same firm charged personal purchases of consumer durable goods to the company. Both men presumably expected the company's new controller to accept these practices "like a good soldier." In fact, the controller was so frustrated by this conduct the he ultimately resigned.

The interviewer must not only interpret what he hears and sees during the interview, but he must also be able to express the reasons for his decisions clearly. Both tasks are difficult, the second one the more so because everyday work and conversation do not require a vocabulary of personal attributes. Lack of vocabulary may be the reason so many supervisors and interviewers dismiss a candidate with a single, all-inclusive phrase. Too seldom are the individual traits and characteristics analyzed and evaluated. For example, a division manager described one of his department heads in this fashion: "He's not working out. I can't quite put my finger on it, but if he doesn't leave, I'm going to fire him."

APPLICATION FORMS

These can save a great deal of time, although candidates tire of filling them out, and senior men resent their impersonal, inflexible approach. It is for just such reasons, because they force answering of questions which might be overlooked, that applications can be so valuable. However, many present-day forms contain questions which are not significant in indicating the potential value of an employee to the company.[4] Ideally each item should be correlated with later success or failure on the job.

Extensive research by such organizations as the Life Underwriters' Research Bureau has indicated that personal data may be closely correlated with success on the job. Thus, marital status, numbers of dependents, education, or social affiliations may be significant. One study of 224 saleswomen showed that a weighted application blank would have recommended hiring 77% of the clerks who ultimately stayed with the firm a year or more, but only 28% of those who left within three months.[5] (It might be

[2]O.S.S. Assessment Staff, *Assessment of Men,* New York: Rinehart & Co. Inc., 1948, p. 26.
[3]R. K. Burns and H. W. Johnson, *Personnel Selection and Employment*, Chicago: The University of Chicago Industrial Relations Center, 1951, p. 449.

[4]Yoder, p. 33.
[5]J. Welch, C. H. Stone and D. G. Paterson, *How to Develop a Weighted Application Blank,* Dubuque, Iowa: Wm. C. Brown Co. 1952, p. 130.

argued that tenure is not the only or the best measure of good selection.) Studies undertaken by the public employment services in Detroit tend to show that these personal factors are more valuable as predictive devices for certain types of positions than any test results thus far obtainable.[6] Application of weighted forms to the selection of supervisory and professional people is limited by the small number of identical positions on which studies could be made.

Personnel research is not yet an accepted function in Canada, so that little has been done in this area. Employment men are often under such pressure to get results that little is likely to be done in the future.

Getting new tools accepted can also be a problem. A Montreal industrial relations manager who has tested and proven weighted application blanks is reluctant to use them, fearing his president's disapproval.

THE EMPHASIS ON EXPERIENCE

This difficulty of evaluating a candidate's ability and potential is perhaps the main reason companies place so much emphasis on previous experience in their industry or work. Many Canadian industries are small and specialized so that the number of men with applicable experience of a given age and salary range who are seeking a position at a given time is apt to be very small. In such a group, the men who are *in the market* may happen to be average or even below average. Yet companies are inclined to wait for such men, rather than take more capable men without experience in the company's industry.

In the writer's opinion, companies overestimate the time required to learn their business. A person who is intelligent and highly motivated can learn as much in six months (admittedly with on-the-job training and night study) as an average salesman might in ten years. It should be remembered that the rate of learning drops off rapidly with time, that many men who have held a position for years lose interest in learning more, and that ability to gain product or process knowledge depends on the type of position. More than one *expert* merely has one year's experience ten times over.

REFERENCE CHECKS

The best predictor of what a man can do in the future is what he has done in the past. Thus if we can find out how well a man did in his last few positions, we should have a good indication of how he will do in our position, bearing in mind that his performance can be affected by changes in motivation, job interest, and quality of supervision.

References from personal friends are not an accurate reflection of a man's ability; indeed, friends often have only a vague idea of the work he does. Open letters from former employers—the *to-whom-it-may-concern-type*—are similarly suspect. Most bosses like to appear good fellows, and are reluctant to damn a man to his face or to refuse to give a reference. Thus such references are more valuable for what they do not say than for what they do say. They define the bush by beating around it.

For example, consider these two comments about the same chemical engineer:[7]

> "Mr. L..... is very personable and I feel that if he finds work which he enjoys, that he will do well at it."
>
> "Mr. L..... left our employ on a voluntary basis, and while his period of employment was short (13 months), I personally would vouch for his honesty and integrity."

A careful, first-hand conversation with a man's former immediate supervisor (as opposed to some record-keeper in the personnel department) can reveal information not readily obtainable during an interview with the candidate. A check list to plan the conversation is valuable, especially for the inexperienced interviewer. Although an interview in person or on the telephone is preferable, supervisors will make some astonishingly candid (and potentially libellous) remarks in writing. This source of information should not be overlooked when any supervisor or professional employee is hired or transferred, as the consequences of any error in selection far outweigh the additional cost.

The common weakness of references is usually thought to be the supervisor's desire to protect the former employee, to give him the benefit of any doubt, and not to stand in the way of his securing a position. Tiffin surveyed 100 sales managers on their practices in handling references with the following results:[8]

In replying to a letter of inquiry from a prospective employer regarding the fitness of one of your former employees,

	Yes	*No*
Do you tell only the good things you can say about the man?	77%	23%
Do you always give the man the benefit of any doubts?	85	15

[6]Yoder, p. 35.

[7]References in the files of the Technical Service Council, Toronto, 1959.

[8]Joseph Tiffin, *Industrial Psychology,* 2nd ed., New York: Prentice-Hall, Inc., 1948, p. 160.

Do you point out the man's failings and weaknesses as well as his strong points?	39%	61%

In view of the sales managers' answers, one might have asked, "Did you answer this questionnaire honestly?"

Such problems can be largely overcome by personal contact, by specific questions, non-directive interviewing and evaluating the man in terms of known large groups or mutually known people. A former supervisor's reluctance to answer a question, or his slowness in doing so, speaks volumes.

The real problem, and one which seems to have received little attention, is that of evaluating the supervisor. This applies equally if the candidate is already employed by the firm, and is being considered for a transfer, although in this latter case personnel departments seem apt to assume that if the man's supervisor says he is *lazy*, the man is lazy.

One must establish what standards the man giving the reference has. Perhaps he allows his research engineers to arrive and leave work at any time, providing they get their work done. Perhaps they are encouraged to read technical journals on the job. A transition from this permissive atmosphere to a 9-to-5 regime where reading is frowned on could be difficult for some men.

What standards of performance were expected? What does he mean by *lazy, slow, unco-operative?* Can we get examples of such performance? A man who is regarded as first-class in one organization may be quite unacceptable in another because accepted standards of performance differ. How familiar was the supervisor with the man's performance? In many sales jobs the supervisor may see his men infrequently, so objective appraisal of their performance is difficult. This variation is best illustrated by an actual example. Two of the references were secured by first-hand contact, the other was obtained by writing.[9]

Comments by the Immediate Supervisors (designated A. B. C.) from three Companies on an Industrial Engineer Who Worked for Them:

Personal Qualities

A. Adequate assurance in meeting the public, but slightly questioned their reaction to his approach. Somewhat casual in his attitude toward work. Was not lazy and failure to measure up may have been due to lack of direction on our part.

B. Has total inability to get along with fellow workmen and management. No loyalty. Interrogated me about a competitive company. Then said he sold his services to the highest bidder and that he intended to apply to them. Tactless when teaching workers and supervisors. I couldn't get him to sit down and discuss anything. He was so obnoxious that one supplier's salesman asked to be relieved of calling on him.

C. Blunt in his approach to people. His suggestions upset our plant managers, but that's what they needed. You need mature people to deal with him. A good man. Very analytical mind, but an individualist.

Character

A. Honest and reliable.

B. Poor. Used to arrive at work an hour late, come in the back door, and say he'd been working upstairs.

Reason for Leaving

A. Did not quite measure up.

B. Fired him due to the way he antagonized people.

C. Still employed.

[9]References in the files of the Technical Service Council, Toronto, 1959.

PSYCHOLOGICAL TESTS

The many limitations of other selection techniques have prompted a marked trend to psychological tests. These are easy to use, require no judgment and best of all give an answer in black and white. Businessmen are used to dealing with quantitative terms and welcome such an apparently scientific measure of a man. In practice, some tests are used under conditions for which they were never designed.

The passion of businessmen for this new technique, backed by their willingness to pay high fees, has encouraged ill-qualified psychologists to enter the field and others who should know better to prostitute their professional knowledge. Few are eager to explore the ethical problems of releasing very personal information on candidates to employers. The limitations of such tests are not likely to be explained too clearly either. As there is no recognized licensing body, these quacks are likely to continue to prey on employers' gullibility.

Few employers seem to understand the nature, potential, or limitations of psychological tests. Many have such faith in them that they will not hire a man unless he has been recommended by a test. In one instance, an industrial engineer who was interviewed

and recommended by the chief industrial engineer, the plant manager, the employment department, the chief industrial engineer from the American parent, and a past employer was rejected when a test result "showed he lacked mechanical aptitude." This slavish reliance on tests may result from a reluctance to contradict an apparently scientific device. More important, the supervisor who employs a man who was condemned by a test has no alibi if the new man fails. If the test recommended the new man, failure could be explained as one of those odd instances in which the test went wrong.

In practice, tests are used to eliminate men with shortcomings rather than to identify men with strengths. Because test results are submitted in writing, managers reading them tend to overstress candidates' weaknesses.

The value of tests is limited because test conditions are often not standardized, candidates (now aided by Mr. Whyte[10]) put down what they think will get them the job, and because the tests are seldom validated against the situation in which they are used. As so many tests are administered by outside consultants, proper validation is difficult, if not impossible. Moreover, *ability to perform well does not imply motivation to do so.*

Many of the jobs for which tests are used as a selection tool are unique, and validation of a test is impossible. A given company has only one president, and perhaps one vice-president, controller, and plant manager. The company organization, market conditions, union pressures, and executive personalities are unique, yet all affect the demands made on the incumbent of each of these positions. Any change in the executive changes the atmosphere in which the others must operate, so that no test can be validated against one position.

Many human traits (honesty, loyalty, personality, character), some of them of utmost importance in certain positions, are so loosely defined or so complex in nature that no completely satisfactory tests have been devised for them.

Indeed, psychologists cannot agree on what factors make for success. One study shows that the only common attribute of successful top executives is a large vocabulary. Even the term *successful* is open to doubt, for so many executives with 20 years' apparently successful service find themselves demoted, transferred, or fired when management changes. One wonders whether Sir James Dunn, Sir Herbert Holt, Lionel Forsyth and Donald Gordon, all noted Canadian executives and outstanding individualists, would pass any psychological test battery. As for Churchill and Montgomery . . .

One candidate for a position as general sales manager was interviewed and tested by three psychologists, some of whom used projective techniques. All recommended the applicant with varying degrees of enthusiasm. After he passed the now-fashionable Activity Vector Analysis Test, the man was hired, only to be discharged in a year's time. As more companies have similar experiences, they will perhaps be slower to abdicate their responsibility for the hiring decision. Then, and only then, will psychological tests take their place as a useful additional tool, to be regarded with caution.

OTHER TECHNIQUES

Perhaps the most sophisticated selection procedures have been developed by the German Army, the British War Office Selection Board, and most recently by the Office of Strategic Services of the United States. Each had a group of candidates live and work together for several days under close observation. Interviews were supplemented by informal observations, individual tasks, group tests (designed to simulate on-the-job conditions), projective tests, and a sociometric questionnaire in which a candidate's acceptance by fellow candidates was estimated. An after-war appraisal by the O.S.S. showed no correlation between predicted and actual performance. Validation of test results was most difficult, as it would be in industry.

In practice, it would be difficult to induce some candidates, especially senior ones, to undergo such time-consuming tests. The cost of conducting them, and the cost and slowness of evaluating them will discourage their use.

The same can be said of group interviews, situational tests, and role playing, the other remaining techniques. Group interviews, in which candidates in a leaderless group discuss a problem, are time-consuming, hard to evaluate, and require several qualified observers. Role playing, in which verbal skills are demonstrated in simulated sales presentations or other interviews, is easy to set up. But it takes a skilled person to break down the candidate's nervousness.

Technical skills can also be tested more than they are. Misunderstandings would be avoided if more candidates were asked to do a sample problem, for example in bridge design or market research, before being hired. Such testing gives the candidate a better idea of the work (although it may not be

[10]William H. Whyte, Jr., "How to Cheat on Personality Tests," The *Organization Man*, New York: Simon & Schuster, Inc., 1956, p. 449.

easy to find a representative problem), and gives the employer a chance to evaluate the man against his own standards.

Although little used, all these methods show considerable promise. Indeed, any technique which focuses more attention on the selection process is worthwhile, even if it only means that more consideration is given to the decision. Much remains to be done and much time should be devoted to evaluating the selection process and available techniques.

JOB DESCRIPTIONS

"The function of selection requires the careful correlation of human characteristics and job requirements, to the end that the individual may fit the job. Such a process requires for its efficient operation: 1. the discovery of definitive job requirements for each position, and 2. the recognition and measurement of distinctive correlated human characteristics." [11]

"This is fundamental since it is impossible to predict whether a given person, no matter how accurately his skills are estimated, is suitable for a job of an unknown nature. To state this more generally, it is impossible to predict whether one thing, A, which is present and open to measurement, will fit another thing, B, which is absent, if the dimensions of B are not known." [12]

A man's performance will vary with the quality of his supervisor, the amount of training he gets, and the personalities of his associates. In theory, the more accurate the description of his physical and social environment, the better our predictions of a person's behaviour. Unfortunately, the complex organizations (formal and informal) of today's corporations are not readily reduced to paper or even understood.

Moreover, the demands of the job change. The company, industry, technology, competition, and management change, with attendant changes in the demands on the individual. The oil-company sales manager who prospered during many years of stable markets may not be able to cope with price competition. The chief engineer who did so much to give a new company good products may not be able to handle the 30 people his success has helped bring.

Because of these factors, job descriptions, and man specifications are difficult and time-consuming to prepare. Consequently, many companies prefer to do without them. There may also be a reluctance on the part of a supervisor to rule out (on paper) anyone who might be suitable, without actually seeing him.

Job descriptions provoke serious semantic problems, and the action-oriented line supervisor is apt to have little patience with them. When he asks the personnel department for a man with personality and potential, he expects everyone to know what he means. In fact, such characteristics are hard to define and mean little when standing detached and theoretical. A man may be patient in one way and not in another. A tool maker may be patient in watching a slow and very important cut, but impatient with his foreman. A man may be energetic at one kind of work but lazy at another. Different jobs have very specific and characteristic differences, and it is impossible to describe them except in equally specific terms. The personal qualities are so abstract that they cannot be measured except in terms of some concrete job.[13]

When describing men whom they want, managers are typically concise and emphatic. This could be due to a lack of vocabulary in this field or to the inability to ask the right questions of themselves. The simple statement that a job requires *personality* is commonly evidence of laziness on the part of those writing job descriptions.[14] Requests for more detailed information are apt to be met with resistance and a pained, "I've-told-you-all-there-is-to-know" expression. Typically, a manager will ask his personnel department for a *controller* and expect it to know what he means. He's familiar with the job, from long association, and thinks everyone knows what it is. The title alone connotes a great deal to him, but not to others. The title calls up an association of functions, skills, talents, and responsibilities (which may be vastly different from a job with the same title in another company or even from the job in the same company five years ago). Also, many management and professional jobs are so varied that it is difficult to describe every function accurately; it is faster and easier to generalize with some catch-all phrase like *process and product development.* Perhaps too there is a reluctance to be tied down to specific duties.

This aversion to job descriptions may also be related to the need to specify education, experience, and other factors. Men with a *minimum of seven years' experience* may vary greatly, and the supervisor who is recruiting probably wants to feel free to take a technician with four years' experience if the right one comes along. All these actions could go back to a tacit feeling of each supervisor that he will know the right man when he sees him.

[11]Yoder, p. 24.
[12]O.S.S. Assessment Staff, op. cit., p. 28.
[13]H. C. Link, *Employment Psychology,* New York: The MacMillan Co. 1919, p. 83.
[14]Yoder, p. 122.

Thus a large company, with a policy of many transfers, may seek average or even technically below-average staff in a desire to get men who are adaptable, co-operative, and who will fit in anywhere. The alert, incisive individual, quick to respond, find fault, and offer suggestions, may be much less acceptable than the slower, plodding but innocuous person. "You can almost put our men in a mould," says one employment manager, "I can tell if a prospect is our type."

Since a president sets the pace, a change in chief executive changes the behaviour of his subordinates. Procedures and actions that were previously acceptable may not be allowed, while once-forbidden practices may now be permitted. Thus the way of life, the activities of subordinates change to conform with the new boss. Or at least, they attempt to change with what they *think* he wants. How successful they are will depend in part on how their boss *sees* his bosses' needs. By the time the president's instructions have been passed to the bottom echelon, they may be distorted badly.

If the two chief executives differ greatly, one may change not only the kind of performance which is acceptable, but also the kind of man who is acceptable. Thus a man who once was *our type* may find himself in disfavour, perhaps even out of work.

THE ROLE OF THE EMPLOYMENT DEPARTMENT

Decisions on the selection or transfer of professional and supervisory personnel are usually made by line managers, although screening may first be done by an employment department or office manager, if the company has one. Large companies seem to favour using interviewing as the first of several assignments in training industrial relations men. Their interviewers are often recent university graduates, sometimes in their first job. Such men do not always enjoy much respect with the line managers who place the job requisitions. The official announcement of one young man's appointment said his previous experience included "six months as a salesman and several summers on lake boats." His assignment was greeted with derision by line supervisors, who nicknamed him "Lake-boat Lawson" and tended to do their own recruiting.

Equally common is the small or medium-sized company with a small or one-man personnel department. Typically this is concerned with union negotiations benefits (beside which recruitment hardly counts), and all the other personnel function. Plus the manager has little time for the recruiting aspect of his job, nor is he likely to be trained in interviewing. Like his younger counterpart in the large company, he may not have factory experience and, therefore, may not be on equal terms with line supervisors who are seeking men.

Interviewers usually have a relatively low status in the organizational hierarchy, and this may affect their status with plant people. Thus some personnel men may feel insecure and be reluctant to press demands for a better job description for fear of antagonizing line supervisors. Moreover, being junior personnel, they do not wish to expose their ignorance to their superiors. The only response to ". . . and the other things which a treasurer does," is "Of course!"

As training in interviewing is seldom given, the recruiter must get his cues from his upbringing, limited experience, reading, and observations in the company. But even these standards change, for with job rotation so common at this level, the interviewers, and therefore the standards against which candidates are measured, change frequently.

In a large firm, interviewers cannot know the personalities and idiosyncrasies of many supervisors for whom they are screening people. Indeed, they may never meet them. Some men may be hired for jobs which will not be assigned until after a two-year training programme. Fearsome of criticism by the power-wielding line, the interviewer may decide to play safe, to refer conforming, uninteresting average people.

The harrassed personnel manager at a small plant may be more secure, However, such a man is often over-loaded, particularly during union negotiations, and he may not be able to give screening the attention it deserves. Moreover, he is also under pressure to get action, i.e. produce candidates, and it is sometimes wiser to feed the line unpromising people rather than be charged with not doing one's job.

SELECTION BY THE LINE

The final selection is usually made by line supervisors, except in large companies which hire large groups of personnel for varied, geographically spread assignments. There is a tacit assumption here that the line knows what it wants and knows how to recognize it when they see it. In fact, the interview is full of pitfalls and operating personnel are rarely trained in its techniques.

A supervisor may have very few occasions to select people during his entire career. Yet the consequences of these isolated decisions may be most important for his company. Sometimes the final selection is made by university graduates with only one

or two years' experience. They must tend to pick people who meet their standards, and those of the organization as they see them (which may be dimly, on the basis of a year's experience at the eighth level of supervision). Any misinterpretation of the boss's actions can have its effect on selection.

A supervisor's decision to hire may also be affected by his urgent need for a man. Thus a man of doubtful ability may be taken on permanent staff because of a pressing immediate need. There may be pressure to get someone who is acceptable to those not promoted. Also an over-qualified man or one who is immediately available may be hired because he is handy or *my type*.

Production, marketing, and many other functions are evaluated regularly by statistical analysis. The same is not true of the selection of personnel. The problem is made most difficult because the successful candidate may be transferred or employed at a location away from where he was hired, or he may work under little supervision. If he does not work out, companies do not consider it a failure of selection, but say,' "He just didn't measure up; he's incompetent." Perhaps we should ask, "Who hired him, who trained him, who's incompetent?"

CONCLUSION

We can do a better job by evaluating the selection that has been done in the past. Most attempts at evaluating personnel selection have been discouraged by the overpowering number of variables and the cost of such research. Perhaps there is room for industry-sponsored, co-operative research in personnel selection.

Meanwhile, individual companies can do much. They can make their line supervisors and employment people more aware of the costs of poor selection and of the surroundings of the various selection techniques, especially psychological tests. Both groups can be trained. Better job descriptions (particularly where none now exist), more complete disclosure of working conditions, and more tests of job skills might contribute to a reduction in turnover and dissatisfaction. In addition, the status of the employment department needs upgrading. It can provide a company with the greatest competitive advantage there is: better people.

"We can never find enough good men." If this oft-repeated complaint is true, it will be increasingly important, during the coming years of shortage of technical and managerial staff, to find and identify good men and then to place them in the right job, and review their performance, transferring if necessary to take full advantage of their abilities. We cannot afford to waste the greatest natural resource we have.

DO AS WE SAY, NOT AS WE DO

Early in the year an interesting appeal to the Income Tax Appeal Board, against the Minister of National Revenue, was won by The Honourable George C. Marler, former M.P. and Minister of Transport under the last Liberal Government.

In 1957 Mr. Marler, along with all other Members of Parliament, paid by payroll deductions (or, more precisely, by deductions from his sessional indemnity) the $240 required by the Members of Parliament Pension Plan. Entirely apart from the Members of Parliament Pension Plan, Mr. Marler also paid $2,500 to a registered retirement savings plan operated by the Royal Trust Company, and claimed this $2,500 as a deduction from his taxable income. The Minister of National Revenue refused to allow this deduction of $2,500 and reduced it to $1,260 ($1,500 - $240), on the basis of Section 79B (5)(a) of the Income Tax Act, which states that a person who is contributing to a *registered* pension plan cannot deduct contributions to a registered retirement savings plan beyond $1,500 *less* his contributions to the registered pension plan. Mr. Marler appealed, contending that the Members of Parliament Pension Plan was not a *registered* pension plan (*no attempt to make it a registered pension plan had ever been made by the Government*), that Section 79B (5) (a) did not apply and that he therefore had the right to deduct the *full* $2,500 he had paid to his registered retirement savings plan as allowed in Section 79B (5) (b), even though he *had* contributed a further $240 to the Members of Parliament Pension Plan. The Income Tax Appeal Board agreed with Mr. Marler's argument and he won his appeal in full.

The interesting point about all this, of course, is whether or not the Deparment of National Revenue is going to go back and tax all our Members of Parliament on the Pension deductions of $240 per year which they have been claiming, since the Income Tax Appeal Board has found that those deductions have *not* been made in respect of a *registered* pension plan. Presumably that is what the Department would attempt to do in the case of the employees of a *corporation,* in similar circumstances.

—Canadian Actuarial Bulletin

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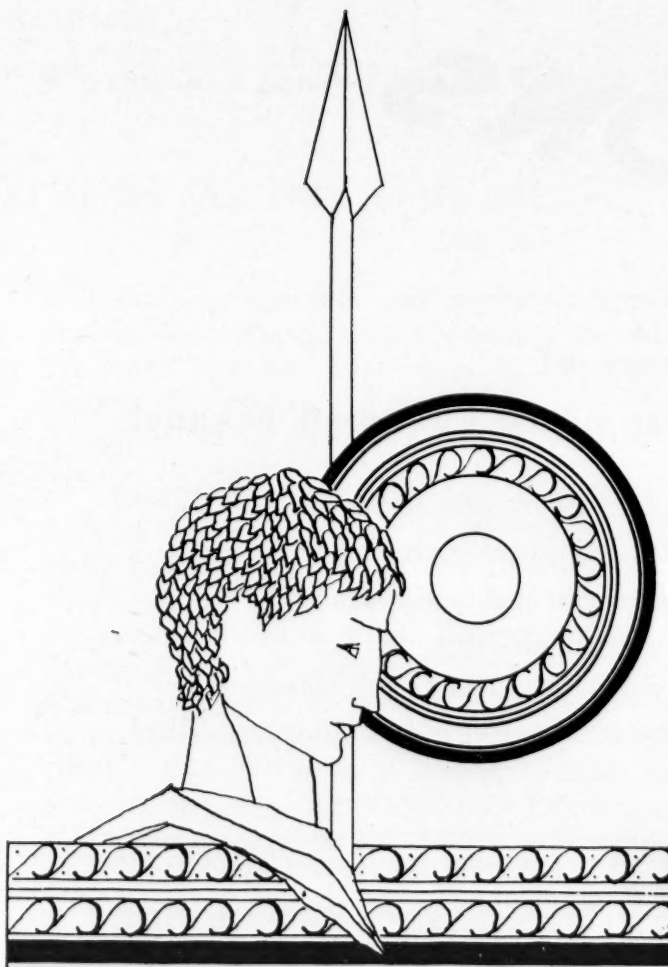
PYRRHUS, King of Epirus, won a victory which cost him the flower of his army—"one more such victory and we are lost" he cried—hence a Pyrrhic victory. If anyone prides himself that "no insurance man has ever sold me anything"—his victory also will prove to be like that of Pyrrhus.



The CANADA LIFE
Assurance Company

Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

In his 1961 budget speech the Minister of Finance proposed sweeping changes in the rules relating to personal corporations which, if enacted, would have resulted in many companies now taxed as ordinary corporations being treated in the future as personal corporations. These changes, although subsequently incorporated in the Bill which was introduced into Parliament to amend the Income Tax Act, were withdrawn eventually for further study as a result of numerous representations made to the Minister.

Since 1926 The Canadian Income Tax Act and its predecessor, The Income War Tax Act, have provided a special set of rules for the taxation of the income of a class of corporations known as "personal corporations." The effect of these special rules, which have been substantially unchanged since their inception in 1926, is to ignore completely the existence of the corporate structure and to tax annually in the hands of individual shareholders the total income of the personal corporation without regard to whether or not such income is actually distributed to the shareholders. The personal corporation itself is specifically exempted from the payment of corporation tax on its income and the shareholders (having paid personal tax on all income received by the corporation) are exempted from the payment of personal tax on any dividends actually paid by the personal corporation. The purpose of this special legislation, as clearly stated by the then Minister of Customs and Excise at the time of its original enactment in 1926, is to tax the income of personal corporations in the hands of individual shareholders as if the personal corporation did not exist.

Up to the present time a personal corporation has been defined as one which is controlled by an individual resident in Canada or such an individual together with his spouse and/or children, derives at least 25% of its income from investment sources, and does *not* carry on any active business. Any corporation which does not fall within this definition is subject to the tax rules applicable to ordinary corporations.

As ordinary corporations are exempt from income tax on dividends received from other taxable Canadian corporations, the investment corporation which does not fall within the definition of a personal corporation has served as an interesting device for the deferment of tax on dividend income. Such a corporation has been used in many cases as a reservoir in which dividend income can be stored and reinvested without payment of either personal or corporation tax. In these circumstances there has been considerable incentive to disqualify family investment companies from personal corporation status.

Under the existing rules this disqualification could be effected by having the investment company operate an active business even though the business was quite small in relation to the size of the investment portfolio. Disqualification as a personal corporation also has resulted if control of the company is divided among a group of brothers and sisters (but not if it is divided among a parent and his children). Under the rules which were proposed in the 1961 budget, however, a company would not be disqualified from personal corporation status as a result of carrying on an active business unless more than half of its total income is earned from the business operation. Further, control by any related group of individuals would qualify for personal corporation status so that a company controlled by brothers and sisters would be treated as a personal corporation if it meets the income tests. Also a corporation controlled by one or more trusts or estates would fall within the personal corporation definition if it also qualifies on the other grounds.

While it is possible that the 1961 proposals may not be re-introduced in 1962 or may be subject to substantial change, the Canadian businessman would be prudent to take into account the possibility of future amendments along the general lines of those introduced this year. Shareholders of companies which would be vulnerable to personal corporation status as a result of such amendments should give consideration to action which can be taken now but which might not be appropriate if the company were to become a personal corporation.

Canadian Law and the Businessman

PETER V. V. BETTS

THE POSITION OF A MINORITY SHAREHOLDER

The position of a minority shareholder in a closely held company is not a happy one. He can successfully be denied representation on the board, and profits of the company can be skimmed off as salaries, travel, expenses, and so forth. Generally speaking, the Courts will not interfere with the internal management of a company and there is little that the minority shareholder can do about it. Not infrequently it is even difficult to dispose of the shares since the only potential buyers are usually the majority shareholders, themselves, who are well aware of the inferior bargaining position of the minority shareholder. An enquiry into how people are manoeuvred into this position would be most interesting but out of place here. Suffice it to say that the position of a widow inheriting her husband's shares is a pretty obvious example. The company can be doing very well without ever showing a profit and even if it does the directors do not have to declare a dividend. While her husband was alive he drew a good salary and enjoyed a generous expense account, but what good is her 49% interest now? What can she as a minority shareholder do about it?

Brown et al v Can-Erin Mines Limited, et al 1961, O.R. 9, throws some light on this problem although it arose in a very different way. Can-Erin Mines Limited was an Ontario Company and owned all the shares of a company known as the Emerald Isle Mining Co., and in such capacity it operated the Mountain Mine, a copper mining prospect which was long ago a large producer of copper in Ireland. Three very substantial shareholders managed to obtain the election of their nominees as directors of Can-Erin Mines Limited. The directors approved a management contract with Trans-Ocean Explorations and Management Limited, which was owned exclusively by the three shareholders referred to above. The contract provided for a fee of $60,000 a year to Trans-Ocean plus certain extras.

The minority shareholders argued that the contract was a mere device whereby three shareholders could skim more than $60,000 a year from the profits of Can-Erin Mines Limited before such profits could reach their proper destination. A mining engineer of many years standing swore that the duties of the officers of Trans-Ocean were purely administrative, supervisory, and advisory, and from a technical standpoint a local manager with technical and accounting staff could have performed such services for about $15,000 a year and an accountant's salary at $5,000 a year. This would produce a saving to Can-Erin Mines Limited of more than $40,000 a year.

The matter came before the Court in an oblique way. The majority had called a shareholders' meeting to confirm the action of the directors, and the minority applied to the Court for an injunction to prohibit the holding of the meeting until the main action by the minority against the majority for the return of something in excess of $200,000 paid under the contract could be tried. There was some suggestion that the notice calling the meeting was irregular, and it was argued that, in any event, such a contract being oppressive to the minority could not be effectively confirmed by the shareholders. In granting the injunction the Court quoted Menier v Hooper's Telegraph Works 1874 L.R. 9. Ch. 350.

"Assuming the case to be as alleged, then the majority have put something into their pockets at the expense of the minority. If so, it appears to me that the minority have a right to have their share of the benefits ascertained for them in the best way in which the Court can do it, and given back to them."

The case indicates a fresh approach to the problem. Businessmen have become accustomed to having the Minister of National Revenue pass on their expense accounts but had pretty well assumed that the Courts would not otherwise interfere with the internal management of the company unless irregular in form or patently fraudulent. Perhaps the Court meant to place this case in the latter category, and, if so, one cannot quarrel with the decision, although the dicta cited appears as a counsel of perfection to guide present day conduct in the market place—and perhaps that is all to the good. The case deserves careful study, and it is to be hoped the main action produces some judgments of ruling authority.

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SUN LIFE ASSURANCE COMPANY OF CANADA

Head Office: Montreal

BOOKS FOR THE BUSINESSMAN

THE BUSINESSMAN IN FICTION

In these days of book clubs, review magazines, and the ubiquitous *paperback,* another commentary on reading *possibilities* may seem rather a bore. My intent in this review should be made clear at the outset. I like to read novels about business and businessmen. I like to see how the novelist views business—the variation of adulation, protest, suspicion, prescription, and so on, these views take on. I find one way to get a *feel* for the current popular stereotypes of the businessman, and to get some perspective on business life in general, is to read business fiction. If this type of reading intrigues you, the following paragraphs may provide you with some suggestions for taking (in reading) a busman's holiday.

Novelists have the happy advantage over technical authors in being able to personalize the man of business. They show the effects of a changing society and of different ethical values on the business world. Indeed, most authors strive to project some sort of an image of executive life, capitalistic practices, or industrial attitudes. The novelist usually portrays some extreme of behaviour which substantiates one or more of a number of stereotypes. By reading several novels which represent different periods in history the evolution of a business "style of life" may be dramatically seen. Sometimes we can not help but laugh at the errors and "fictions" promulgated in business fiction. Sometimes, however, the extremes portrayed finally break into the circle of our secure self-pictures and some soul-searching results. Novelists generally look on business with suspicion, but even this can not be entirely discounted today when so many of the writers who use business themes have considerable business experience. While mentioning many titles, I shall comment on the forces influencing the novelist's view and tentatively characterize the business *personality* and *philosophy* as I interpretate it in novels familiar to me.

In the beginning was the hero-manager, an owner-manager with motives of power and money, resources of great drive and the ever present *opportunity.* This is the hero in the glorified accounts of the rags-to-riches theme of the Horatio Alger period. The novelist took sides; individualism or conformity were the major ideas. Poverty and immoral or illegal business practices were either bitterly or sarcastically resented or vigorously supported as necessary for survival. Of the former peruasion Sinclair Lewis's *Babbit* (1922, Harcourt Brace)[2] is famous, but others also joined in the chorus of social protest. Frank Norris in *The Octopus** (1938, Bantam F C8) equated business with monopoly and pictured a railroad as a blood thirsty monster out to suck the very life stream from wheat growers. Upton Sinclair, John Steinbeck, John Dos Passos, Theodore Dreiser, and Hamlin Garland are other authors who echo the disillusion of prior doctrines. Others wrote about the businessman as a pure hero, the fierce upward struggle to the *top,* the necessity of a little *luck,* and often unwittingly of the lack of *culture* once on the top of the power hierarchy. The chronicles of how the great fortunes were amassed (Morgan, Rockefeller, and Carnegie) are examples. The Protestant Ethic gave religious justification, as did Social Darwinism, for economic skulduggery.

By the 1930's most novelists seemed to agree that an individualistic era was finished. The hero-manager, that uncultured hard and utilitarian possessed practical man was doomed. Society was changing. The *laissez-faire* ideology had tumbled with the great depression, and the *little man* (and novelists now began to identify themselves with such) was sulking under the fetters of *They.* The hero-manager disappeared, and the novels of social protest dominated the scene. Novels like *A Cool Million* symbolically disfigured, dismembered and destroyed the captains of industry and the robber barons (the villains). William D. Howell's *Silas Lapham** (1937, Dolphin Book C9) commented on how the specialization of work took the heart out of labour. A contemporary story of the futility in assembly work is *On The*

[2]The year of publication and the publisher follow the title. The paperback publisher is noted when the book is available in this form, these being identified by an asterisk.

*Line** (1957, Bantam, A 2042) by Harvey Swados. Howell in a later novel told of how a newly rich person attempts to *buy* position in sophisticated society. Several themes run through the novels of the thirties: the city symbolized degredation, craftsmanship was declining, and industrialists were simply dullards. John P. Marquand's *Sincerely, Willis Wayde* (1955, Little, Brown and Co.) takes up this last theme—Wayde has no taste of his own, he is a prototype of a new type, the conformist.

There is a shift of attention from the top to the bottom of the organization. Marquand's Charley Gray in *The Point of No Return** (1952, Bantam Books, F1454), however, is neither at the top nor the bottom, he is a member of the *team,* a *relationship* expert, and he finds the organization pervading his entire life. There is in this conformity portrayed by novelists something of pathos, for conformity after all *paid very well.* Ernest Pawl uses *The Dark Tower* (1957, MacMillan Co.) of a huge insurance company, to symbolize the universal security of the organization *if* you offer yourself up to the sacrifice. Swiggett's *The Durable Fire* (1957, Houghton Mifflin) shows how responsibility is *shared* in a a company *over-committeeized* and the individuals thus protected from any blame. This leaves Stephen Lowry in an ambiguious state of pathetic proportions. H. Swiggett's other novel *The Power and The Prize** (1954, Ballantine Books, F150) introduces, or rather reintroduces, romanticism into the business novel. Now, however, it isn't what business *is* that is romantic, but what businessmen *do* in specific terms. The Big Businessman in the person of Cleves Barwick in *The Power and The Prize*, needs only a sword and a cape to be as swashbuckling as Scaramouche.

The executive or team member of the modern novel has changed considerably in the last two decades. Often now he is stereotyped quite opposite the *Tycoon* and is fairly human. He has his problems, getting ahead, making the big deal, and more and more often thinking of wife, family, religion, the ethics of his or his company's practices, his rut, and even rebellion. One theme persists, the corporation type hero of the modern business novel till can not *buy* the culture he lacks, though he seems to keep trying once he finds his lack. The contemporary novel permits a variety of rols for the executive never before portrayed.

Let us look at some of the plots in recent novels. Tom Rath, Sloan Wilson's *The Man in the Gray Flannel Suit** (1955, Pocket Books, C230), is caught between the sacrifices needed for success in his career and his values of being a *family man.* We find he settles for some of both. In an older book, Sinclair Lewis shows how the character of the book's title, *Dodsworth** (1929, Dell, 16158), finds that being a successful auto manufacturer results in lots of cars and not at understanding his wife. A course of action opposite from Tom Rath's, is taken by Don Walling in *Executive Suite** (1952, Bantam Books F1). Walling sees his chance for power and strives for it, the personal feelings of others forsaken. Again in *Cash McCall** (1955, Pocket Books, C313), Cawley depicts a slick corporation man who buys and sells companies using income tax loop holes to amass great wealth. The typical hero, he retains his integrity as well. Perhaps Cawley has as much as anyone furthered the most recent stereotype of the executive—smooth, slick, and sophisticated. The latest Cawley novel takes this form of hero and makes him fairly human too with such *likable* details as having the feminine half of *The Lincoln Lords** (1960, Bantam Book S2221) named Maggie.

The business man in today's novel is often drawn as pathetic, his struggles among conflicting values with uncertain faith while satirized are also humorous and very often optimistic. The search for *a* conviction is growing stronger. The evils of the businessman and the business system are less clear as to their origins—is it *They*, executives themselves, or plain business? The fictionalized businessman is becoming many things, conformist and nonconformist, hedonist, politician, group thinker, even philosopher. Where will he end? As for myself I shall continue to enjoy reading of him in his natural habitat—the business novel.

Other novels that might be of interest:

M. Davenport, *Valley of Decision.* A family saga of the Scott Iron Works; the men who pump life blood through the heart of Pittsburgh come alive.

R. Rylee, *The Ring and the Cross.* A tale of corruption in Texas enterprise and a struggle for power.

T. Duncan, *Gus the Great* (1947, Lippincott), Within a circus, the story of the main character's enterprise is wild and wooly.

Herman Wouk, *Aurora Dawn* (1956, Doubleday). A laudable spoofing of radio, ad men and soap. Sponsors, account executives, everyone, has a cut taken at him.

Taylor Caldwell, *Dynasty of Death** (Pocket Books, C252. The munitions industry and makers have a hard time standing up to Caldwell as prosecuting attorney.

Robert Penn Warren, *At Heavens Gate,* (1959, Random House). A rich father's children make a cult of failure just to get even with the old man.

James Gould Cozzens, *By Love Possessed** (1957, Crest, T326). The responsibilities of being a very human lawyer are great, but so is the wisdom of some of the characters.

Frederick Wakeman, *The Hucksters* (1946, Reinhart Co.). The title is eloquent in itself.

Ayn Rand, *Atlas Shrugged** (1957, New American Library, Q1702). The superhuman qualities of the individualistic hero type triumph. Here the individual is the best organization man.

There are of course any number of novels that portray the human relations of administration in government, education, politics and other institutional settings. Some examples are: *The Last Hurrah, Advise and Consent*, The Ugly American*, The Caine Mutiny, Island in the Sun*, Melville Goodwin: USA, The Affair*, Affairs of State.*

Craig C. Lundberg,
Assistant Professor, U.W.O.

Ottawa Newsletter cont.

hard-shell thinking of the continuing bureaucracy advising successive governments.

A side thought on what I have described as the almost unbelievable naivety of some politicians concerns the site of our government in Ottawa. In the segregated ivory towers of this exclusively government town, politicians and bureaucrats alike are deprived of the benefit of refreshing quaffs at the fountain of practical thought, which can be enjoyed only from the continuously flowing springs of mental intercourse with the business, banking, and economic worlds, now far removed from Ottawa.

But there are suddenly welcome new signs of disquiet here, even among those Ministers who so recently and so abruptly expressed to Britain's Duncan Sandys their "different assessment of the situation." And Mr. Pearson has urged "the building of a solid political and economic Atlantic community, in which the U.S. would be a indispensable partner." The task, he admits, will be "as difficult a task as ever faced free peoples. It will cut across considerations of narrow national advantage. It may seem to give foreigners competitive advantages. But unless we accept its necessity, economic conflicts between friends will develop, to the severe detriment of our defence and political co-operation."

The problem today is not the danger, as Trade Minister George Hees so misinformedly expressed it, of "overnight flooding of our market by cheaper U.S. products"; nor the political target of full employment for elections' sake. The problem is, quite simply, to reorganize the Western World to ensure the continuation of our very existence, independent of dictatorship from the Kremlin.

Washington Newsletter cont.

dollars worth of Army and Navy supplies scattered all over. He became President of the big Fidelity-Philadelphia Trust Company. He was a prime money raiser for the Eisenhower campaign. He was vice-president of the Committee for Economic Development, which has been described as the progressive tycoon's research organization. It would be hard to find a man of wider world experience, or one who was more receptive to the problems which the Commonwealth members will face when the United Kingdom enters—if it does—the Common Market.

A significant allusion to the interest of the Administration in the problems which would face the Commonwealth came from the President himself when he told his press conference that the United States had steadfastly supported the political and economic integration of Western Europe. He went on to say that "during the progress of the negotiations the United States will, of course, give close attention to all the developments affecting our own economic interest and those of other friendly states in this hemisphere and elsewhere."

The phrase "this hemisphere and elsewhere" was taken as a covert but direct reference to the British Commonwealth. But aside from that there is little to go on. Nobody here really knows how far Prime Minister Macmillan is prepared to go in following through his application to join the E.E.C. The feeling is that the Common Market holds the cards and that the U.K. will have to join pretty much on their terms. Can British agriculture continue to enjoy protection while Breton agriculture complains to the point of insurrection that it is not given equal rights in the Common Market? Not likely.

The specialist units of the Commonwealth which supplied the United Kingdom market exclusively, such as New Zealand and to a lesser extent Australia, may expect particular consideration, but can Canada? Not so many years ago, Canada was offered a free trade pact with Britain; it was rejected without discussion. Much more recently, the U.K. representative came to discuss entry into the Common Market. The story here is that talks were planned on the basis of three days, with another three days if needed; they were cut off after two days by the Canadians.

Correct or not, this story is believed here. If it is true, Canada need not look for any special consideration from the United Kingdom. It need not expect any special consideration here, where the importance of Britain joining the European Economic Community is rated far higher than what are regarded as temporary and regional dislocations. Canada is expendable where the future of the larger European Community is concerned. Does Canada seek a closer economic community with the United States? This is nose-end vision. The larger picture is the Atlantic Community. The United States is not prepared to become fairy godmother to Commonwealth Cinderellas.

THE IDENTIFICATION OF MANAGEMENT POTENTIAL

by Thomas A. Mahoney, Thomas H. Jerdee, and Allan N. Nash, Wm C. Brown Co. Inc., Dubuque, Iowa, 1961, 77 pp., $3.00.

What personal characteristics should an individual possess to be an effective manager? This is one of the salient questions bandied about by members of the business community, especially those responsible for the hiring and promoting of personnel. In industry the question is dealt with over the coffee table, during *bull sessions,* at conferences, and usually in the form of a give and take of ideas with little factual, rigorously collected evidence, to support the conclusions. This book describes a systematic study of the personal characteristics that can be used as predictors of managerial effectiveness. The study is one part of a general focus on management development by The Management Development Laboratory of the Industrial Relations Center at the University of Minnesota.

The authors ask the following specific research question: "What are the personal characteristics which differentiate between the more effective and the less effective managers?" Two comparable samples of a total of 468 managers from varied (size and product) companies formed the population of the study. The personal characteristics pertinent to their effectiveness were derived from the first sample. The second sample functioned as a validity test of the results of the first sample. The basic characteristics selected for investigation in this study included intelligence, empathic ability, interests, and personality. These basic characteristics were proliferated into eighteen measures. These measures appear to correlate closely with effective management. One chapter of the book delineates the method by which a company could apply the model for predicting managerial effectiveness from personal characteristics which would obviously facilitate hiring and promotion of managers.

The crucial aspect of this study is the definition of the criteria for effectiveness. It appears that this criteria was not clearly defined by the authors. Top executives of the companies in question were asked to evaluate the participant managers as either more or less effective. The basis of their evalution was not clearly denoted. This cricism should be tempered by the complexity of the problem involved. A criteria of effective-

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ness acceptable to a broad public of managers is not an easy task. The authors by virtue of this study have contributed to reducing the complexity of the task, however, it would be prudent to define effectiveness more rigorously before considering the relatable personal characteristics.

This book is recommended to the businessmen concerned with the broad field of management development. The complexity of the problem, the difficulty the authors had in analyzing it, the results, and the consideration for future research should prove stimulating to the reader.

A. Mikalachki,
Instructor, U.W.O.

THE SERVANTS OF POWER

by Lorin Bartz, Wesleyan U. Press, Middletown, Connecticut, 1960, $4.50.

Dr. Bartz has written this book to consider the broad questions of what happens when the social scientist—psychologist or sociologist — is hired by management. Does this mean that the social scientist loses his independence and his devotion to objective fact and becomes another servant of power? In his opinion, this has occurred, and, because of the inceasing knowledge of the science of behaviour that is being secured, management is beginning to learn how to control conduct. A scholarly book, with learning that is worn lightly, it is highly recommended, particularly for the historical aspects of the usage of social scientists.

Wm. A. Preshing,
Assistant Professor,
University of Alberta.

PUBLIC RELATIONS AND MANAGEMENT

by David Finn, Reinhold Publishing Corp., New York, 1960, $4.50.

This book, written by a practioner of the art, describes how public relations fits into management policy. Mr. Finn writes knowingly on what public relations can and cannot do. He considers public relations a management tool that, when used wisely, is of benefit to the company. In discussing the ethical aspects of public relations Mr. Finn comments that ". . . a company actually is analyzing its social role in the community. It considers what its deeper values are as a social entity." Concerned with broad generalities and few specific cases, this book can be considered of only limited value.

Wm. A. Preshing,
Assistant Professor,
University of Alberta.

THE CRISIS WE FACE— AUTOMATION AND THE COLD WAR

by George Steele and Paul Kircher, McGraw-Hill Book Company, New York, 1960, 220 pp., $4.95.

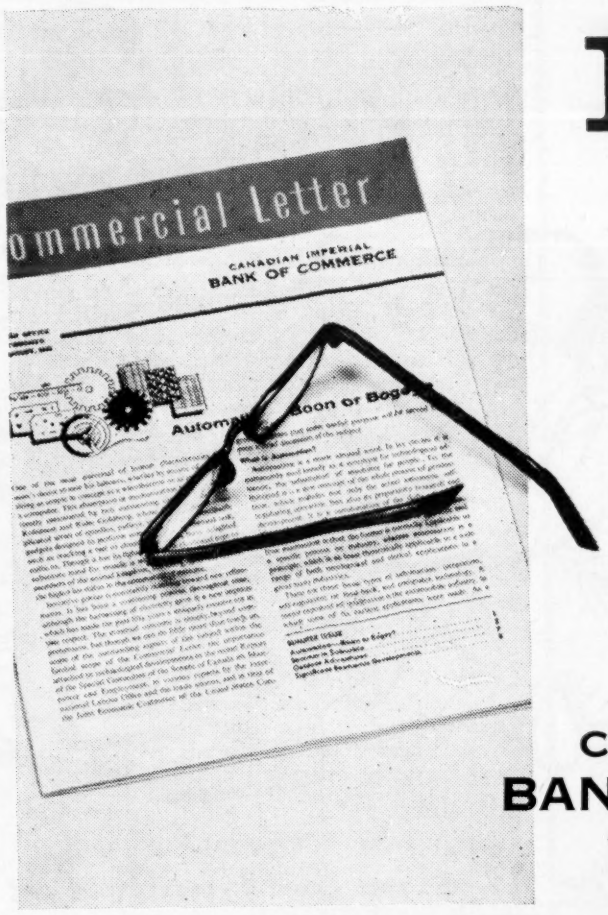
The crisis in this case is the fact that United States technological development has failed to keep pace in certain strategic areas, particularly missile development, with that of Russia. The lag has developed not only because the importance of missile development after World War II was underestimated, but also because its administration has been mismanaged ever since.

Missile design has been fragmented with specialists designing small parts which later had to integrate with other similarly created mechanisms to operate the whole missile. The result has been hyper-complexity, duplication, and unnecessarily rigid parts specifications, and poor performance. The high number of interrelated parts has forced reliability requirements for individual components up and brought system performance down. The ultimate consequence has been extended development time, exorbitant costs, failure of missiles to perform, and almost no missiles reaching operational status. Similar problems have arisen in the applications of computers to business.

To counteract these developments, administrators must be developed who can communicate with specialists. They must also be able to choose between technical and scientific proposals which compete for resources. Finally they must be able to integrate the research, design, and production of technical products so that the fragmentation which thus far has produced the over-complicated and unreliable weapons system will be eliminated. Flexible organization structures must be developed which can be moulded to fit the logical requirements of the end to be accomplished. The company or government body will have to be considered as an integrated operation.

The educational system should be revised to produce graduates who are conversant in the fields of science, mathematics and logic, administration, social sciences, and the humanities. For this a seven year college course will be required.

Messers. Kircher and Steele have more to say than the above brief outline indicates. However these main points have been stated and they add another note to a not unfamiliar



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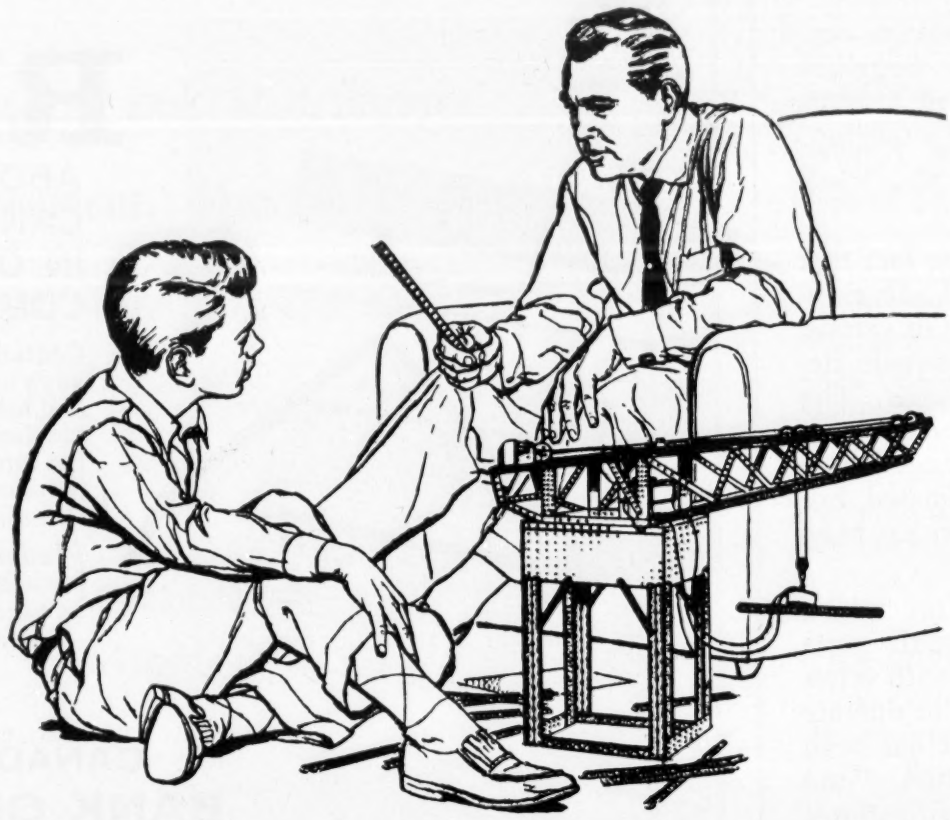

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melody. The course of technology *is* changing organization requirements in industry and government. The old Adam Smith concept of division of labor *is* proving inadequate for planning, research, and administration. The traditional functional groups *are* breaking down, becoming less distinct, particularly in technologically changing industries or those companies which are introducing computers into their operations. The nature of the administrator's job is changing. His decisions depend more and more on technological considerations and are far more reaching in their effect on the total organization.

The authors' proposals are far-reaching and drastic, requiring not only changes in approach to research, but also major changes in corporate and social values. However, they recognize this and do not underestimate the inherent difficulties. As a blue print for action, however, their proposals must be regarded as long range since the inertia of present educational, corporate, government, and military institutions is so huge that any significant change will come slowly. Therein lies the crisis.

Bert Wood,
Assistant Prnfessor, U.W.O.

SAMPLE DESIGNS IN BUSINESS RESEARCH

by W. Edwards Deming, John Wiley & Sons, Inc., New York, 1960, 517 pp., $12.00.

It is unlikely that any area in business research is as crucial and yet as poorly handled as sampling. This is a book on probability sampling in business research situations, and, if for no other reason than that stated above, it deserves a place on the bookshelves of all interested in, or doing, business research.

The term *business research* implies a broad scope and rightly so. The purely theoretical aspects of the book can be useful in any sampling application. And to assist the reader in understanding the theory the author uses specific examples of surveys of consumers, surveys in psychological problems, surveys of business establishments, statistical problems in accounting and in auditing, evaluation of inventory, and so on.

New concepts and methods of sampling are developed and discussed in this book. Perhaps the most significant conceptual contribution is the idea of the *equal complete coverage* which leads to an operational definition of the standard error of a sampling procedure. The value of such an approach, explains Deming, lies in the fact that ". . . an operational definition will not get us into trouble with impossible words like true value, perfect quetionnaire, perfect complete coverage, none of which, as far as I know, has meaning . . . The operational definitions make a clear separation between what is sampling and what is not."

The most important contribution with respect to methods is the discussion of replication, a methodology that facilitates the computation of the standard error. Replication is fully explained, and the author suggests procedures for its use.

This book is not easy to read, a fact that I find hard to dissociate from the author's admission that the book was prepared patch on patch over a period of nine years on trains and waiting in stations. I found myself flipping feverishly from front to back and page to page trying to piece together the author's line of thought. The value of the ideas in this book, however, far exceeds the difficulties encountered in reading it.

Joseph N. Fry,
Instructor, U.W.O.

INDUSTRIAL PSYCHOLOGY

by B. von Haller Gilmer, McGraw-Hill Book Co., Toronto, 1961, 513 pp., $7.50.

The title of this book is shared with as many other books as probably any single title. With few exceptions, in the past the word "industrial psychology" has meant either another mass of statistics and test results, or some dreary and obvious "common sense" psychology. B. von Haller Gilmer of the Carniegie Institute of Technology with the collaboration of 15 specialists, many of whom are colleagues at Carnegie, has produced an eminently readable text, which should become as popular as any other text in the field.

The several authors have been edited to provide a surprisingly even reading book. The short chapters, unencumbered by superfluous footnotes, charts, etc., marks this book one of those few which can be read in "bits and pieces" without losing more than is gained. The attention given the wider context of industrial psychology makes the book a good introduction to the aligned fields of human relations and personnel administration. How many introductory tests are so specialized and narrow that one is always wondering which part of that very large elephant (humans, organized in groups, in industry) the author is touching. This book is an exception to the elephant fable. The lack of detailed psychology methodology is handsomely replaced by an

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emphasis on description and an up-to-date discussion of the application of industrial psychology. New features are a history of industrial psychology, organization and theory, business operating procedures, and the special problems of aging women, unemployed and handicapped workers. Of interest are chapters on the human aspects of systems engineering and the marketing mix of advertising and selling. The mention in this review of the section which discusses in a detailed manner the organization as a communication system should indicate how completely up to date this book is. The latest research findings are liberally applied and attention is given to describing the new roles of the practising industrial psychologist or those applying psychological knowledge. All this adds up to a text which can be highly recommended as an introduction to a fascinating field of study.

Craig Lundberg,
Assistant Professor, U.W.O.

HOW TO BE A SUCCESSFUL RETAILER IN CANADA

by Harold Shaffer, McGraw - Hill Company of Canada, Limited, Toronto, 1961, 392 pp., $8.50.

If a reader were to lose interest in the early pages of this book—as difficult a task as, say, rolling off a log—he would leave the book with the impression that Shaffer has done for the study of retailing what the Bobbsey Twins have done for the seashore. But the persevering reader will be well-rewarded.

Fortunately, Shaffer runs out of clichés and flabby generalizations ("Make sure that the merchandise fits into your buying plan and will not destroy your store image.") early enough to be able to recover and create an excellent, useful retailing primer. The section on merchandising draws quite wisely on the thinking of Dr. E. O. Schaller of New York University, and it is clear, concise, and complete. Here the author strikes a most realistic and practical balance between science and art. Charts, photographs, tables, and exhibits abound throughout the book, but are nowhere better used than in this section.

The other conventional topics are handled conventionally but competently. Excellent new ground is broken in a sharp warning to retailers against the not uncommon practice of showing a pre-determined profit by juggling inventory figures. There are still retailers who forget that the closing inventory

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Books for Businessmen — cont.

of one fiscal period is the opening inventory of the next, and the concrete examples in the book illustrate the cumulative problem that results from such juggling. Here the danger is slightly overstated—the hidden inventory does not necessarily *all* date back to the time of the original peccadillo.

An encouraging chapter undertakes to prove that there will always be a small retailer, if he is adaptable enough to exploit the inertia and the weaknesses of chain and department stores. However, no mention is made except by implication of discount operations, which could bear roughly the same relationship to many present day independents as the Barbarians did to the ancient Romans. Shaffer feels that a position between the too broad merchandise range of the department stores and the overly standardized range of the chains is the sound one for the independent. Choose a segment of the market, the reader is told, and go after that segment, rejecting peripheral business. Sound advice, followed by the author himself who, by adding the last two words to his title, turned his back on many potential readers.

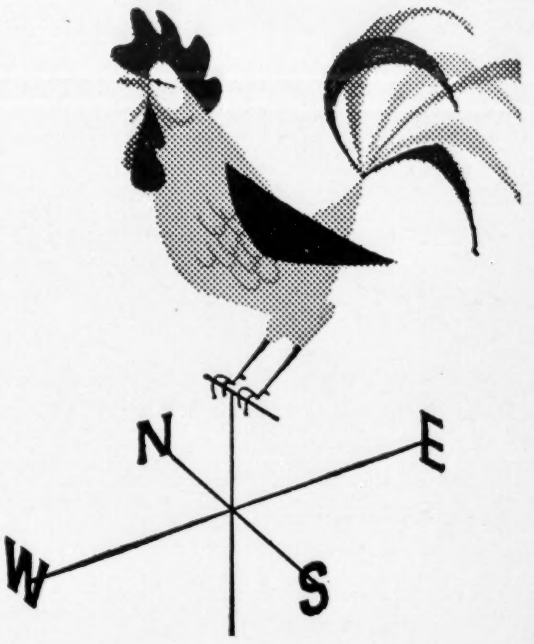
Larry Agranove,
London, Ontario.

STUDIES IN INDUSTRIAL RELATIONS FRINGE BENEFIT COSTS IN CANADA - 1959

Industrial Relations Counsellors Service, Inc., No 5, Toronto, 1960, 53 pp.

This study, published as a result of a survey of fringe benefit costs in Canada in 1959, is similar to those conducted by the Industrial Relations Counselors Service in 1954 and 1958. The survey establishes the constant increase in the cost of fringe benefits to Canadian industry over the last few years. In the two year period between 1957 and 1959, while the percent of payroll only advanced 3.3 percentage points, the dollar outlay per employee rose 26.2%. This fact emphasises the importance of fringe benefit cost to the average company and the necessity of management taking a close look at the dollars involved before committing their company to an extended program on benefits.

The study initially defines fringe benefits as those benefits provided by a company in addition to wages and salaries. In 1959 the average total outlay by the companies which took part in the study amounted to 22.2% of the payroll of $1036 per employee. The percentage of payroll ranged from 16.5% in the textile mill



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Books for Businessmen — cont.

products to 26.6% in food, beverages and tobacco. The largest item of fringe benefit expenditure was the cost of vacation pay (4.1% of the payroll). Employer's contributions to pension plans (3.6% of the payroll) ran a close second.

The 1959 tabulation differed from the previous ones in that outlay for "rest periods and coffee breaks" and "bereavement pay and jury militia duty" was separated from the general category of "other paid time off." The study brings out that the average cost of coffee and rest break is 3.3% of the payroll. The figure will certainly confirm what management has long suspected—that coffee and rest breaks are a substantial cost item.

Comparatively, over the last two years, the average total employer outlay for fringe benefits rose as a percentage of payroll from 19.4 to 22.7 per cent. In terms of dollars per employee, the increase was from $846 to $1068 over the same period. These are substantial increases in a relatively short time. If one can draw any conclusion from this marked growth, it is that fringe benefits are becoming increasingly important in the overall cost of doing business. This bears out the contention that trading off threatened wage increases for increased employee fringe benefits across the bargaining table may have strategic advantages, but in all likelihood the company is no farther ahead financially. This survey substantiates that fringe benefits are a very real and growing cost of doing business.

Well laid out and concisely organized along the lines of a report, the study presents its statistics supplemented by completed tables. Although this survey can be read quickly, there is an abundance of information which certainly warrants more thorough study—in fact, there are many items in addition to the statistical analysis which should be of interest to both operating and personnel executives.

John Kyle,
Assistant Professor,
University of Alberta

Our Readers Write cont.

In a sense also you are pre-judging the matter in that, until the facts are well known, it is not certain that drug pricing, however it is carried out, is subject to the full and free influences of the market place—as you say, we have no way of knowing whether those in charge of the drug industry in Canada have acted ethically, intelligently, and responsibly.

Yours truly,

A. Mathews,
CNR, Toronto.

To The Editor,
The Business Quarterly:

I would like to congratulate you on your editorial "Witch-Hunt Go Home" in the Summer 1961 issue.

The Canadian electrical manufacturing industry, in particular, has been harassed from all quarters with accusations of price fixing, etc. etc., and this has been accelerated since the Philadelphia investigation of the electrical manufacturers in the U.S.A.

The uninformed assume that identical prices are developed only by collusion and always contain an exhorbitant profit. In fact, many times, identical prices produce only losses. What is more aggravating, the complainants make purchases of goods and services almost daily at identical prices without question, yet they direct attention to specific classes of manufactured products.

The disturbing part of the anti-combines act is that the word 'profit' is not mentioned and is not considered by the administrators of the Act.

From my observation, the integrity of the Canadian manufacturer is on a level at least equal to that of any other segment of our society, and he does not deserve the image which is so often outlined as a result of the administration of our anti-combines law. Furthermore, the overzealous publicity has acquainted the uninformed public with a subject which they were not previously concerned, nor able to fully understand because of the complexities involved.

The prices of wheat, butter, railway airline fares, barbers, newspapers, etc. etc. are accepted by the public and the authorities without question. How can we manufacturers raise ourselves to this level of acceptability? I would hope a copy of your editorial is placed in the hands of all our members of parliament, as the witch hunt is not confined to the CCF party.

Yours sincerely,

Thos. Edmondson,
President,
Ferranti-Packard Electric Limited,
Toronto, Ontario.